

78 04079

INFORMATION REPORT

JARVIS-GANN TAX LIMITATION INITIATIVE

*Real property Tax - CA  
Municipal budgets -- Pasadena  
Revenue - 1986-87 & 1987-88*



INSTITUTE OF GOVERNMENTAL  
STUDIES LIBRARY

JUL -3 1978

UNIVERSITY OF CALIFORNIA

City of Pasadena





OFFICE OF CITY MANAGER  
PASADENA, CALIFORNIA

February 14, 1978

author -> Pasadena City manager

INFORMATION REPORT

JARVIS-GANN TAX LIMITATION INITIATIVE

Real property Tax - Cth  
Municipal budgets -- Pasadena  
Pasadena -- Approp. & expend.





OFFICE OF CITY MANAGER  
PASADENA, CALIFORNIA

February 16, 1978

To the Honorable Board of Directors  
of the City of Pasadena

Ladies and Gentlemen:

Jarvis-Gann Tax Limitation Initiative

As you are aware, staff has recently been preparing a report for the Board concerning the proposed Jarvis-Gann property tax limitation initiative. This initiative (Proposition 13) will appear on the June 6, 1978 State Primary Election ballot. The initiative merits considered analysis; if approved, it will have a considerably adverse effect upon City revenues and services.

The attached report on Jarvis-Gann has been prepared by the Management Analysis Division, incorporating input from City department heads. The report provides as up-to-date information on the initiative as is available, a detailed analysis of its potential impact, and a decision package of cost reductions/avoidances and revenue increases for your consideration. Also included are copies of several analyses of the initiative prepared by other agencies.

It is intended that this report serve as a focal point for beginning the difficult process of planning and prioritizing that must be done in order to accommodate the restrictive limitations that would be in effect under the Jarvis-Gann initiative.

An option the Board may wish to consider, though not included in the report itself, would be putting a measure on the June 6 ballot calling for voter approval on the assessment of ad valorem taxes to pay the principal and interest on lease revenue indebtedness heretofore incurred for the Pasadena Center, Villa-Parke Neighborhood Center, Robinson Park, and the two City parking structures. As will become apparent through reading the report, this option, if receiving voter approval, would have the effect of removing the above-named projects from the one percent tax rate limitation proposed by the initiative. The City Attorney and City Clerk have advised that, should this option be pursued, the proposed ballot measure would have to be approved by bond counsel and submitted to the County Board of Supervisors and Registrar of Voters by March 24, 1978.

IX - A - 1  
Feb. 21, 1978





# OFFICE OF CITY MANAGER

## PASADENA, CALIFORNIA

To the Honorable Board of Directors  
of the City of Pasadena

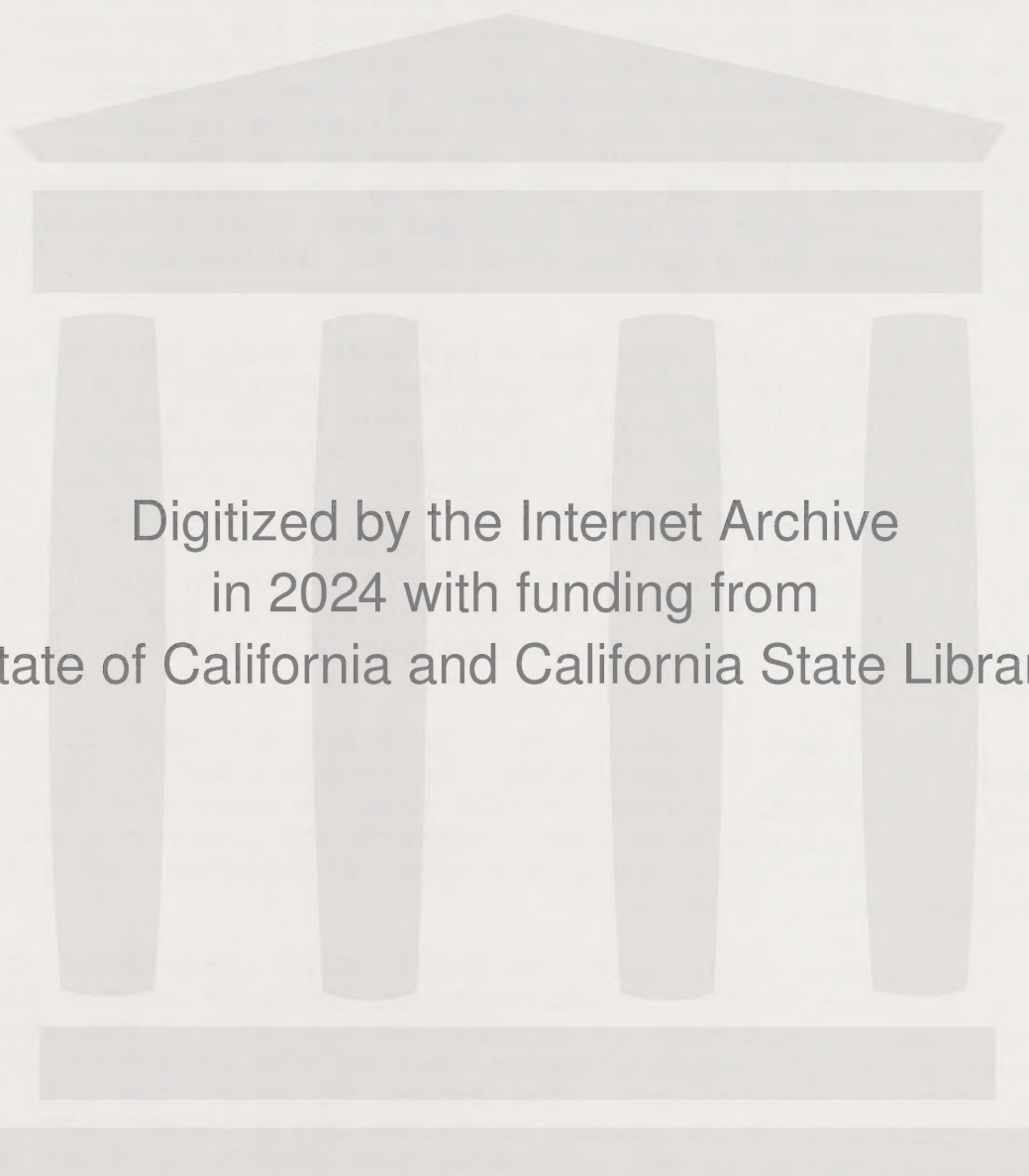
2.

Because of the obvious far-reaching implications of the Jarvis-Gann initiative, as it relates both to the general public and City employees, I believe that the City Board has the responsibility to advise the citizens of the community of the City's intentions with respect to changing services and/or revenues, in the event the Jarvis initiative is passed. The City management owes a similar obligation to the City employees, whose jobs may be affected by the Jarvis measure, and for this reason we have provided them with a memorandum, dated February 16, alerting them to the importance of this issue.

Thus far, the City Board has informally advised management of their willingness to consider a detailed analysis of the Jarvis-Gann initiative. While none of the alternatives which we have provided in this report are particularly pleasant to contemplate, we feel it is important that the Board carefully consider these alternatives and plan to spend considerable time in discussing and ultimately deciding upon a "Jarvis-Gann Budget". It is hoped that the Board's decision could be made prior to the end of March so that sufficient time could be available for the media to disseminate this information to the community.

The extent to which the City Board may want to actively advocate a position with respect to Proposition 13 is a major policy consideration which should also be carefully weighed in the light of whatever legal constraints there may be on the City taking an advocacy position with respect to a State constitutional proposition.

It seems clear that the Jarvis-Gann initiative arises out of a great deal of frustration on the part of the taxpayers in this state, and that it strikes at not only a reduction in payment of local property taxes, but at the reduction in the cost of local government. The extent to which the City Board feels compelled to be guided by those two philosophies will, in part, it seems to me, influence the extent to which they opt for reduction in services as opposed to increases in revenues. It should be carefully noted that the City staff has not in this report put into priority order either recommended reductions in services or recommended increases in revenues, It should



Digitized by the Internet Archive  
in 2024 with funding from  
State of California and California State Library

<https://archive.org/details/C124899664>



# OFFICE OF CITY MANAGER

PASADENA, CALIFORNIA

To the Honorable Board of Directors  
of the City of Pasadena

3.

also be noted that this is a fairly broad-brushed approach at identifying opportunities to reduce costs. Undoubtedly, as discussions proceed on this issue, the Board will have requests for additional information and may ask for some recommendations with respect to priorities. We are prepared to provide the information, but believe that we need the Board's guidance on the philosophy underlying this issue before proceeding to that next step.

Undoubtedly, any of the decisions that might be reached in connection with this issue are going to be politically unpopular and some could be damaging to the City's employer/employee relationships. It bears repeating, however, that City Management can live with the total package of reductions - if that is the Board's final decision.

Having said all that, however, it seems to me that the overriding obligation of the City Board and City Manager is to deal with the issue as we understand it, with the hope that the Board's deliberations will result in a better-informed community on the Jarvis-Gann issue. Waiting to commence these deliberations until June 7 is simply too late to make the necessary accommodations to the new Constitutional provision in time to comply with the July 1 deadline. Responsible governmental administration dictates the need to give careful, thoughtful deliberations to the issues well in advance of the election date and coming to a consensus position on the difficult options that have been spelled out in this report.

## RECOMMENDATION

It is recommended that the Board of Directors:

- . Carefully review the attached report on the Jarvis-Gann tax limitation initiative during the next two weeks.
- . Beginning with the regularly-scheduled Board meeting of March 7, commence development of a prioritized program of cost reduction/avoidance and revenue increases accommodating the limitations which would be imposed by the initiative -- to be finalized by March 28; and





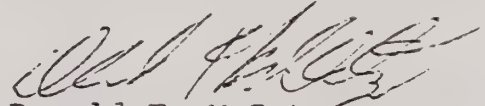
OFFICE OF CITY MANAGER  
PASADENA, CALIFORNIA

To the Honorable Board of Directors  
of the City of Pasadena

4.

- . In the light of legal counsel, determine the position that the City Board wishes to take with respect to advocating a position - vis-a-vis Jarvis-Gann initiative.

Respectfully submitted,



Donald F. McIntyre  
City Manager

McI:S

Attach.





The Jarvis-Gann tax limitation initiative is a proposed amendment to Article XIII (Taxation) of the California Constitution. Sponsors of the initiative are Howard Jarvis, Chairman of the United Organization of Taxpayers, and Paul Gann, Chairman of the People's Advocate. By virtue of gathering more than one million signatures, the initiative has qualified for the June 6 primary election ballot. At this point, the initiative appears to have a very good chance of being approved by the voters; should Jarvis-Gann pass, its provisions would apply to the fiscal year beginning July 1, 1978. The impact upon Pasadena's revenue and municipal services would be substantial.

This report has been prepared to provide the City Board of Directors with general information on the initiative; estimation of its potential fiscal impact upon Pasadena; and a package of alternatives to reduce expenditures and raise revenues, thereby accommodating the considerable financial limitations which would be imposed by Jarvis-Gann.

#### PROVISIONS OF THE JARVIS-GANN INITIATIVE

The full text of the Jarvis-Gann initiative is appended as Attachment 1. If approved by the voters, this would become Article XIII A of the State Constitution. The overriding purpose of the initiative is to lower property taxes and the cost of local government. The initiative is brief, encompassing six short sections -- this brevity, combined with a minimum of legal/technical jargon, no doubt contributes to its popular appeal, but has also resulted in several ambiguities, which will be discussed later.

The major points of the Jarvis-Gann initiative are:

- Ad valorem property taxes are limited to 1% of "full cash value" (defined as the 1975-76 County Assessor's valuation) - this equals an aggregate tax rate of \$4 per \$100 of assessed value as compared to the current total County rate of \$13.14;
- Property tax revenue is to be collected and apportioned by the counties "according to (State) law" to districts within the county (no such law currently exists);
- Taxes necessary to meet bond obligations which were approved by the voters prior to July 1, 1978 (the effective date of the initiative) are exempt from the 1% limitation;
- Reassessment will occur only when property changes ownership, is newly purchased or constructed, or is assessed below the 1975 valuation, and is limited to an increase of 2% per year;
- A two-thirds (2/3) vote of both houses of the State legislature is required for any increase in the level of State taxation, and the legislature is prohibited from imposing any new property or transfer taxes;
- Local government can likewise impose no new property or transfer taxes, and can levy "special taxes" only upon approval of two-thirds (2/3) of the qualified electors; and
- The article would take effect July 1, 1978, and contains a severability clause which would disqualify only those sections of the amendment as may be found unconstitutional.





## ANALYSIS OF JARVIS-GANN

Several governmental jurisdictions and other agencies have completed studies of the proposed Jarvis-Gann initiative. A representative sampling of such analyses is included following this report, as Attachments 4-9. Included are reports from the State Legislative Bulletin, Assembly Revenue and Taxation Committee, Senate Office of Research, League of California Cities, California Chamber of Commerce, and the City Attorney of Los Angeles. Other analyses are also available for your perusal.

There seems to be emerging a fairly common body of opinion concerning the potential impact of Jarvis-Gann; this section of the report summarizes the more salient points.

### IMPACT ON LOCAL GOVERNMENT

The major impacts upon local government which could arise from passage of the Jarvis-Gann initiative are:

- |  |  |
|--|--|
| LOSS OF PROPERTY<br>TAX REVENUE                      | 1. The Legislative Analyst has estimated a reduction in local property tax collections of between \$7 and \$8 billion annually -- this impact would obviously be directly proportional to the particular local agency's reliance upon property tax revenues (school districts and "bedroom communities" could be among the hardest hit)  |
| LOSS OF REVENUE<br>SHARING FUNDS                     | 2. Though difficult to calculate with certainty, it is evident that local agencies would derive less Federal Revenue Sharing funds, since these are based in part on local tax effort (which would be diminished under Jarvis-Gann)  |
| REPLACEMENT<br>REVENUES<br>DIFFICULT                 | 3. Replacement of lost property tax revenues at the local level would be rendered nearly impossible subsequent to July 1, 1978, owing to the requirement that any local tax measure be approved by a 2/3 vote of the "qualified electors" (not just those voting on the particular measure)  |
| SERVICE CUTBACKS<br>AND INCREASED<br>SERVICE CHARGES | 4. Unless replacement revenues are provided by State action, substantial cutbacks in basic local government services would occur, as well as considerable increases in local service charges   |
| FASTER LOCAL<br>BUDGET GROWTH                        | 5. Assuming that the initiative results in complete replacement of lost property tax monies with new revenue sources such as personal income tax, sales tax, and bank and corporation tax, local budgetary growth could quite probably be at a faster rate under Jarvis-Gann than at present -- these latter revenue alternatives have historically grown considerably faster than property tax collections. |





LIMITATION ON  
BOND REPAYMENT

6. Local taxes in excess of the one percent rate limitation are not permitted for repayment of bonds issued without 2/3 voter approval

REDEVELOPMENT  
AGENCIES MAY  
DEFAULT

7. The \$4 tax rate will significantly reduce the amount of "tax increment" available to finance redevelopment projects. Further, since increases in assessed valuation will be limited to 2% per year, there may not be sufficient tax increment to meet annual debt service.

NO EMERGENCY TAX  
AUTHORIZATION

8. Unlike most previous tax limitation proposals, Jarvis-Gann does not allow for local agencies to levy taxes for public emergencies such as fire, earthquakes, or floods.

IMPACT ON STATE GOVERNMENT

Some of the major effects upon State government under Jarvis-Gann could be:

SAVINGS TO  
STATE

1. Reduced property taxes would mean lower State reimbursements for homeowner's exemption and business inventory tax exemption -- this, together with increased State collections of personal income tax and bank/corporation tax, could bring about a savings to the State of \$700 to \$800 million annually (source: Legislative Analyst)

LEGISLATIVE  
TAX EFFORTS  
HINDERED

2. Legislative efforts to develop an equitable tax structure would be severely limited by the initiative's across-the-board one percent tax rate and two percent growth limitations

STATE REVENUE  
REPLACEMENT  
ALTERNATIVES

3. According to the Assembly Revenue and Taxation Committee, one of the following measures, or some combination, would be necessary if the State was to replace the lost \$7 to \$8 billion in local property tax revenue:
  - (a) increase the State sales tax from 6% to 13.5%;
  - (b) levy a personal income tax surcharge of 150%; or
  - (c) repeal the 50% business tax exemption and increase the bank/corporation tax rate from 9% to 44%

STATE REVENUE  
REPLACEMENT  
DIFFICULT

4. State tax proposals to provide restorative funds for local governments would have great difficulty gathering the required 2/3 majority vote of the membership of both houses of the Legislature -- absences and abstentions would be counted as "No" votes



SHIFT OF TAX  
BURDEN FROM  
BUSINESS TO  
INDIVIDUALS

5. Replacement of property tax revenues with some combination of sales and income tax revenues would represent a significant shift of the tax burden from business and industry to individuals -- business and industry currently pay 65% of property taxes, while individual homeowners pay 35% -- with individuals paying a greater and greater share of all taxes

STATE CREDIT  
RATING  
JEOPARDIZED

6. The proposed prohibition against State property tax and the 2/3 vote requirement for other State taxes might jeopardize the State's credit rating and the future salability of bonds now authorized, such as the pollution control bonds (source: Assembly Revenue and Taxation Committee).

IMPACT ON HOMEOWNERS AND RENTERS

Homeowners and renters could be affected by Jarvis-Gann in the following ways:

REDUCED  
PROPERTY  
TAXES

1. A substantial immediate reduction in property taxes would accrue to homeowners as a result of the one percent tax rate limitation -- after the immediate tax cut, property tax increases would not exceed 2% per year unless the house was sold

ONE-THIRD OF  
RELIEF TO  
HOMEOWNERS

2. Approximately one-third of the estimated \$7 to \$8 billion in tax relief would go to homeowners, with the majority accruing to business, industry, and agriculture

OFFSETTING  
TAX INCREASES

3. The tax savings to homeowners would be diminished as a result of higher Federal and State income taxes due to lower property tax deductions -- the Assembly Revenue and Taxation Committee estimates that approximately 42% of the savings will be lost to higher Federal taxes

NET TAX INCREASE  
FOR HOMEOWNERS

4. If State taxes are increased to compensate for the loss of revenue to local governments, homeowners could experience a net tax increase, since they pay a smaller share of the total property tax than of income and sales taxes

IMPACT OF  
ASSESSMENT FREEZE  
& REASSESSMENT  
WHEN SOLD

5. The "assessment freeze" and "reassessment-when-ownership-changes" features mean:
  - (a) property tax bills could differ substantially between identical houses on the same block depending upon frequency of sale, meaning that some homeowners would be paying more for the same governmental services
  - (b) a further shift in the tax burden from business and industry to homeowners, since homes are sold more frequently than businesses





- (c) a slowed rate of property tax growth; and
- (d) a certain "locked-in" effect discouraging homeowners from moving because of built-in tax increase each time the home is sold

POTENTIAL  
OVERASSESSMENTS

- 6. The initiative could cause some considerable over-assessments of both residential and commercial properties, since assessments would be frozen at the 1975-76 valuation and could only decline in the unlikely event of a decrease in the Consumer Price Index (contrary to general opinion, there are many parcels which decrease in value for one reason or another).

DECREASED  
GOVERNMENT  
SERVICES AND  
HIGHER CHARGES

- 7. As local governments attempt to compensate for the loss of revenue, homeowners will experience either decreased levels of service, higher charges for services rendered, or both.

NO GUARANTEE  
OF RELIEF TO  
RENTERS

- 8. For renters, there is no guarantee under Jarvis-Gann of property tax relief being passed on in the form of lowered rent -- nevertheless, renters would be required to pay the same potentially increased sales and income taxes, and experience the same service cutbacks and/or increased service charges.

IMPACT ON BUSINESS AND INDUSTRY

The major impacts upon business and industry which could arise from approval of Jarvis-Gann are:

TWO-THIRDS OF  
RELIEF TO  
BUSINESS AND  
INDUSTRY

- 1. The one percent tax rate limitation would result in a significant tax rollback for income-producing properties -- approximately two-thirds of the \$7 to \$8 billion property tax relief under Jarvis-Gann would be derived by business and industry, since these properties account for two-thirds of the State's assessed valuation

DECREASED SHARE OF  
TAX BURDEN FOR  
BUSINESS

- 2. As mentioned before, compensatory tax increases on sales and income would mean a significant shift in the overall tax burden away from business and industry onto individual taxpayers

ASSESSMENT FREEZE  
FAVORS BUSINESS

- 3. The "assessment freeze" provision clearly favors business and industry over homeowners since, as discussed previously, businesses are sold less often than homes

POTENTIAL  
ECONOMIC  
ADVANTAGES

- 4. Economic advantages among competing firms might result to those whose assessments are frozen at lower levels than others

OFFSETS TO TAX  
ROLLBACK FOR  
BUSINESS

- 5. Business and industry would experience the same offsets as homeowners and renters -- potential increases in other tax obligations and potential reductions in governmental





services -- the California Chamber of Commerce has concluded that the net effect of Jarvis-Gann on business is "not predictable"

- |  |    |   |
|--|----|---|
| DISINCENTIVE TO<br>SELL INCOME<br>PROPERTY               | 6. | The "reassessment-upon-sale" provision would serve as a disincentive toward the sale of income-producing properties;  |
| POTENTIAL<br>DISINCENTIVES TO<br>ECONOMIC<br>DEVELOPMENT | 7. | The previously referenced potential increases by the State in inventory taxes, and bank/corporation taxes, would serve as disincentives to economic development and outside investment  |
| POTENTIAL<br>RELOCATION<br>PROBLEMS                      | 8. | According to the California Chamber of Commerce, firms attempting to site industrial plants in a particular community might experience greater difficulty obtaining approval than in the past, since under Jarvis-Gann tax revenues to be derived from the plant are to be distributed on a countywide basis rather than only to the agencies in which the plant is to be located |
| PERSONAL<br>PROPERTY TAX<br>NOT LIMITED                  | 9. | Since the initiative's one percent limitation apparently covers only real (not personal) property, such items as inventories and equipment could be taxed at higher rates than currently.   |

#### AMBIGUITIES

As written, the Jarvis-Gann initiative is vague and ambiguous, leading to several uncertainties as to interpretation. The initiative has been characterized as something less than a model of concise draftsmanship. Some of the more significant areas of ambiguity will be discussed next. For more specific analyses of this aspect of the initiative, see Attachments 4, 5 and 9. The many "gray areas" of Jarvis-Gann may ultimately be resolved only through legislative and judicial action. Of particular concern to Pasadena, as well as other local governments, are the following points:

-How will the 1% of property tax be divided among the local jurisdictions? How will the reassessments be divided up? The phrase, "apportioned according to law" is unclear since there presently is no such law. The initiative is written to imply that only "districts" (undefined) will share in the proceeds of the 1%. Does this preclude cities?

-Section 2 provides for reassessments of "newly constructed" property (undefined) -- does this include major improvements? If additions and alterations are not included, a major loophole could exist wherein billions in new construction could escape taxation entirely; if, on the other hand, it does include improvements, this will serve to curtail rehabilitation of older structures for fear of total reassessment of the entire property to present value.

-It is unclear whether properties assessed by the State rather than the County Assessor (such as public utilities) fall under the limitation of Jarvis-Gann, since the initiative makes no reference to such properties.



Whether they will escape ad valorem property taxes entirely, or whether they will be exempt from the one-percent limitation cannot be ascertained at this time.

-The initiative provides that cities and counties may impose "special taxes" (undefined) by a 2/3 vote of the "qualified electors" (also undefined) of the district. Though unclear, this section appears to be quite restrictive in nature -- there is no definition of the term "qualified elector" in the State Elections Code, and various analyses have interpreted this as meaning 2/3 of all "registered voters" or of "electors," whether registered or not.

-Finally, the constitutionality of Jarvis-Gann is in question -- at least three potential conflicts with the California Constitution have been cited:

- (1) that it deals with more than one subject -- property tax limitation, super-majority requirement for increases in State taxes, limitation on a city's or county's power to impose special taxes -- which is prohibited under Article II, Section 8 (d);
- (2) that it amounts to a revision rather than amendment to the Constitution, and that the initiative process is an unlawful method of revising the Constitution; and
- (3) that it is an unlawful method of amending Charter Cities' funding provisions for pension and retirement systems.

It is to be noted that a suit was recently filed in the California Superior Court, by the former Chairman of the Constitutional Revision Commission. The suit would have removed Jarvis-Gann from the June ballot on the grounds that it is unconstitutional by reason of violating the more-than-one-subject prohibition. On February 15, 1978, the Court ordered the Attorney General's Office to rewrite slightly the title, and the 100-word summary of the initiative; however, at present, Jarvis-Gann remains scheduled for the June ballot under the new title of "Initiative Constitutional Amendment - Tax Limitation."

In addition, another suit challenging the constitutionality of the initiative has been filed with the California Supreme Court. Thus far, the Supreme Court has not decided whether to hear the case.

#### FISCAL IMPACT OF JARVIS-GANN ON PASADENA

Due to the ambiguity of the Jarvis-Gann initiative, it is virtually impossible to calculate with certainty its exact fiscal impact upon Pasadena. Therefore, a range of potential impact, defining upper and lower limits, has been developed. This is summarized in Table I.





TABLE I

<u>LIMITATION UNDER JARVIS-GANN</u>	<u>ESTIMATED FISCAL IMPACT</u>
One percent tax rate limitation	\$ 7,718,359
Decreased revenue sharing	266,640
Potential loss of <u>all</u> property tax revenue	<u>2,468,843</u>
RANGE \$7,718,359 - \$ 10,453,842	

If the initiative passes, the one percent tax rate limitation would mean an estimated decrease in property tax revenue of \$7,718,359 (see Attachment 2 for calculation). This would mean a 20.2 percent decrease in projected FY 1979 General Fund revenues. This calculation is based upon a set of assumptions that may or may not prove valid once the uncertainties of the initiative are clarified: that a proportional distribution of property tax revenue between all jurisdictions would occur; that the State would continue to fully reimburse the homeowners' and business inventory tax exemptions; and that there will be no allowance for delinquency in payment.

Also, Pasadena's Federal Revenue Sharing funds would most probably diminish if Jarvis-Gann passes. This is because the allocation formula for revenue sharing funds is based, in part, upon local tax effort -- which would be decreased under the limitations of the initiative. The revenue sharing decrease has been "guestimated" at \$266,640, the same 20.2 percent of decrease as in the total General Fund decrease for FY 1979. It should be emphasized that this is somewhat of a rough estimate, more adequate data being unavailable. It is felt, however, that this is perhaps an overstated and therefore "safe" projection.

In addition, a strict interpretation of Jarvis-Gann might mean that the City would receive no property tax revenue at all. Should this be the case, an additional \$2,468,843 in revenue would be lost -- a total decrease in property tax revenues of \$10,187,202.

Further, there could be an adverse effect upon the City's health services, dependent upon possible action taken by Los Angeles County regarding the City's contractual agreement. No detailed information is available at present.

A related issue is the initiative's fiscal impact upon the Pasadena Redevelopment Agency's ability to utilize tax increment financing for debt service. The exact impact is unclear at present. The Agency indicates that their total debt service is approximately \$6 million, in the form of term bonds. The estimated impact of Jarvis-Gann would be a tax increment decrease of approximately \$1.5 million, thus diminishing the Agency's ability to continue its debt service payments at the current level. With term bonds, an option would be to pay interest only on a portion of the bonds for a specified period of time, until alternate funding is available.





## ALTERNATIVES

Obviously, a potential revenue loss of the magnitude predicated by the Jarvis-Gann initiative requires some reordering of priorities and careful planning as to alternatives, well in advance of the July 1st effective date.

A preliminary package of cost reduction/avoidance and revenue increasing measures was developed by the Management Analysis Division and presented to City department heads on February 2, 1978. Based upon their recent feedback, an updated package of alternatives is presented in Table II for consideration by the Board. The package encompasses a potential cost reduction/avoidance of \$6,631,300, and a potential revenue increase of \$11,587,098. The relative effects of the cost reduction/avoidance upon each of the departments' General Fund-supported operations is summarized in Table III. These percentages are to be compared to the estimated City-wide General Fund decrease of 20.2 percent noted earlier. Salary calculations are based upon current top step or control rate, with an inflationary factor of 7 percent, and include layoff compensation.

### PERSONNEL IMPACT

The cost reduction/avoidance alternatives outlined in Table II would have an impact of great magnitude upon the City's workforce. A total potential reduction of 380 employees is indicated. In order to apprise City employees of the magnitude of actions that may be precipitated by the initiative, the memo shown in attachment 3 was sent to all City employees on February 16. Some important considerations in this regard are presented next.

First, since passage of Jarvis-Gann might entail layoff of City personnel, notifications of possible layoff must be transmitted to employees. Under current Memoranda of Understanding, the respective City departments are obligated to advise both Personnel and the employee of pending layoff "as soon as possible," (no time frame specified). Therefore, should the Board authorize measures from within the alternatives listed in Table II, involving employee layoff, the notification process must be initiated shortly thereafter.

Second, reductions in personnel also have implications for the City's Comprehensive Employment and Training Act (CETA) program. Community-wide CETA programs operating under the City's prime sponsorship are not jeopardized by Jarvis-Gann. However, CETA-funded City employees (under Titles II and VI), of like classification as regular City employees who are to be laid off, are also subject to layoff. For example, if the entire package of alternatives in Table II were to be implemented, meaning a reduction of 307 employees, it is estimated that an additional 73 CETA-funded employees would also have to be laid off (total 380), based upon the latest employee figures from Career Services. This action would indirectly benefit the General Fund revenue picture, by adding back approximately \$66,000 in salary differential and benefits.

Third, the employee layoffs would considerably weaken the City's Affirmative Action effort. Among represented employee groups, layoff would be made on the basis of seniority. Although specific calculations have not been made, it is felt that a relatively high percentage of minority employees would thus be subject to layoff. Among management employees, where layoff would be made on the basis of merit, it is not felt that minority employees would be adversely affected.



TABLE II

## SUGGESTED FY 79 JARVIS BUDGET ALTERNATIVES

A. COST REDUCTION/AVOIDANCE

DEPARTMENT	ACTION	COST REDUCTION/ AVOIDANCE	STAFFING IMPACT	BOARD ACTION
1. BOARD OF DIRECTORS	a. Delete Field Reps/Field Offices	\$ 67,200	-	
	b. Reduce Clerical Support	28,000	(2)	
		\$ 95,200	(2)	
2. CITY MANAGER	a. Delete Science Advisor	\$ 28,890	(1)	
	b. Delete Public Information Office	39,618	(1)	
	c. Reduce MAD staff by 50%	47,080	(2)	
		\$ 115,588	(4)	
3. CITY ATTORNEY	a. Delete one Deputy Attorney	\$ 19,260	(1)	
	b. Reduce Clerical Support	11,770	(1)	
		\$ 31,030	(2)	
4. CITY ATTORNEY/ CITY PROSECUTOR	a. Consolidate Legal Function/ Delete City Prosecutor	\$ 35,310	(1)	
5. CITY ATTORNEY/ CITY MANAGER/ CITY CLERK	a. Consolidate Clerical Function/ Reduce Clerical Support	\$ 23,540	(2)	
6. PERSONNEL	a. Transfer Principal Analyst to CETA	\$ 24,700	(1)	
	b. Transfer 2 Clerical to CETA	24,600	(2)	
	c. Reduce Analytical Staff	21,000	(1)	
	d. Reduce Training Staff	23,000	(1)	
	e. Reduce Nursing Staff	28,000	(1.75)	
	f. Reduce Clerical Staff	13,000	(1)	
		\$ 134,300	(7.75)	
7. FINANCE	a. Transfer 2 Management Postions to Federal Funding	\$ 54,400	(2)	
	b. Reduce Management Positions	81,600	(3)	
		\$ 136,000	(5)	





A. COST REDUCTION/AVOIDANCE (Continued)

DEPARTMENT	ACTION	COST REDUCTION/ AVOIDANCE	STAFFING IMPACT	BOARD ACTION
8. FIRE	a. Reconfiguration (close 3 Fire Stations)	\$ 903,080	(37.4)	
	b. Reductions in Management Levels	120,910	( 4 )	
	c. Reclassification of Positions (Engineers/Firefighters)	56,710	( 2 )	
		<u>\$1,080,700</u>	<u>(41.4)</u>	
9. HOUSING & COMMUNITY DEVELOPMENT	a. Reductions in Advanced Planning	\$ 23,436	(1)	
	b. Reductions in Development & Zoning	96,785	(5)	
	c. Delete Design Committee Staff	32,419	(2)	
		<u>\$ 152,640</u>	<u>(8)</u>	
10. HUMAN SERVICES	a. Reduce Admin. Clerical Support	\$ 15,058	(1)	
	b. Delete 1/3 of Recreation Mtnc.	53,500	(4)	
		<u>\$ 68,558</u>	<u>(5)</u>	
11. LIBRARY	a. Close all Branch Libraries	\$ 679,000	(27)	
	b. Close Main Library on Sunday	25,000	-	
	c. Delete Audio-Visual Section	52,000	( 2.5)	
	d. Reduction in Administration	36,000	( 1.5)	
		<u>\$ 792,000</u>	<u>(31)</u>	
12. POLICE	a. Reduction in Community Services	\$ 94,773	( 4)	
	b. Eliminate Special Enforcement and Footbeat	297,636	(10)	
	c. Eliminate Helicopter Patrol	493,463	(10)	
	d. Reduce Detectives	116,696	( 5)	
	e. Delete Public Information Rep.	20,000	( 1)	
		<u>\$1,022,568</u>	<u>(30)</u>	
13. PUBLIC WORKS	a. Transfer Street Lighting & Signals to DWP	\$1,654,500	-	
	b. Reduce Traffic Painting	33,000	( 1)	
	c. Reduce Residential Street Cleaning	140,000	( 5)	
	d. Contract Park Maintenance (25% Net Reduction)	392,000	(55)	
	e. Contract for Street Tree Main- tenance (25% Net Reduction)	176,000	(12)	
	f. Contract for Refuse Coll. (Franchise)	-	(70)	
	g. Reduce support staff for contracts and Reduced Services	52,000	( 2.7)	
		<u>\$2,447,500</u>	<u>(145.7)</u>	





# A. COST REDUCTION/AVOIDANCE (Continued)

DEPARTMENT	ACTION	COST REDUCTION/ AVOIDANCE	STAFFING IMPACT	BOARD ACTION
14. WATER AND POWER (DOLLARS NOT INCLUDED IN TOTAL)	a. Implement Hughes-Meiss Recom.	\$ 214,422	( 13)	
	b. Delete Contribution to Chamber of Commerce	83,000	-	
		\$ 297,422	( 13)	
15. GENERAL SERVICES	a. Reduce Transportation Mechanics and Supplies	\$ 94,200	( 2)	
	b. Reduce Services & Supplies in Service Division	25,000	-	
	c. Reorganize Management	58,000	( 2)	
	d. Reduce Housekeeping Division	103,166	( 6)	
		\$ 280,366	( 10)	
16. CITY-WIDE	a. Eliminate Contributions to Civic & Charitable Orgs. (Except Airport)	\$ 150,000	-	
17. CETA	a. Eliminate all CETA positions with General Fund support	\$ 66,000	( 37)	
	b. Eliminate CETA postions which may be impacted by Reg. Employee Layoffs	-	( 36)	
		\$ 66,000	( 73)	
REDUCTION TOTALS:		\$ 6,631,300	(380.8)	

## B. REVENUE INCREASES

1. FINANCE	a. Increase Utility Users Tax 100%	\$ 4,404,648
	b. Increase Sewer Use Charge to fully support operations (82%)	286,000
	c. Increase License & Permit Charges by 50%	52,500
	d. Increase Ambulance Fees by 10%	25,000
		\$ 4,768,148
2. FIRE	a. Interest from Municipal Fire Ins.	\$ 300,000
3. HOUSING AND COMMUNITY DEV.	a. Raise Building permit fee to 1% of Building Valuation	293,000
	b. Make Occupancy Inspection self- sustaining (Increase multiple dwel- ling Occ. Insp. Fee to \$25/unit)	106,875



B. REVENUE INCREASES (Continued)

DEPARTMENT	ACTION	COST REDUCTION/ AVOIDANCE	STAFFING IMPACT	BOARD ACTION
4. HUMAN SERVICES	a. Increase Recreation Class Fees by 50%	\$ 100,000		
5. LIBRARY	a. Increase Overdue Book Fees from 5¢ to 10¢ per day	\$ 30,000		
6. PUBLIC WORKS	a. Establish Franchise Fees for Rubbish Collection	\$ 250,000		
7. WATER AND POWER	a. Increase Light & Power Fund Contributions to General Fund to 16% Maximum	\$ 2,526,000		
8. CONFERENCE CENTER	a. Optimize Rose Bowl Revenue	\$ 1,150,000		
	b. Increase Rental & Parking Revenue	41,625		
		\$ 1,191,625		
9. CITY-WIDE	a. Utilize Contingency Reserve for Operations	\$ 500,000		
	b. Convert Federal Revenue Sharing Funds to Operations	1,320,000		
	c. Increase Business Tax 20%	110,700		
	d. Increase Construction Tax by 50%	90,750		
		\$ 2,021,450		
TOTAL REVENUE INCREASES		\$11,587,098		





TABLE III

IMPACT OF COST REDUCTION/AVOIDANCE PACKAGE  
ON CITY DEPARTMENTS

<u>DEPARTMENT</u>	<u>FY 78 GENERAL FUND BUDGET</u>	<u>COST REDUCTION/ AVOIDANCE</u>	<u>% of REDUCTION GENERAL FUND BUDGET</u>
BOARD OF DIRECTORS	\$ 281,592	\$ 95,200	33.8
CITY MANAGER	590,191	115,588	19.6
CITY ATTORNEY	243,939	31,030	12.7
CITY PROSECUTOR	229,361	35,310	15.4
FINANCE	2,471,014	136,000	5.5
CITY CLERK	138,819	23,540	17.0
PERSONNEL	554,255	134,300	24.2
FIRE	5,664,758	1,080,700	19.1
HOUSING/COMMUNITY DEV.	1,203,660	152,640	12.6
HUMAN SERVICES	1,345,612	68,558	5.1
LIBRARY	2,514,735	792,000	31.5
POLICE	9,858,399	1,022,568	10.3
PUBLIC WORKS	8,439,222	2,447,500	29.0
GENERAL SERVICES	5,294,312	280,366	5.2
CITY-WIDE	37,056,882	150,000	.4
WATER AND POWER*		(297,422)	
CETA**		66,000	
	<b>TOTAL</b>	<b>37,056,882/6,631,300</b>	<b>= 17.9%</b>

\* Noted as offset to potential utility rate increases caused by transfer of General Fund expenditures to Department of Water and Power. (Not included in Total).

\*\*Included to comply with Department of Labor regulations concerning layoff.



## REVENUE INCREASING LEGISLATION

Should the Board wish to increase revenues derived from taxation as presented in Table II (e.g., utility users tax, transient occupancy tax), the appropriate ordinances must be enacted in advance of Jarvis-Gann's effective date of July 1, 1978 in order to avoid the required 2/3 approval of "qualified electors." The City Attorney advises that, to accomplish any such increases, the first ordinance reading must take place no later than May 23, 1978.

## CONCLUSIONS

Passage of the Jarvis-Gann initiative would have the following adverse impact upon the City of Pasadena:

- LOSS OF \$8 TO \$10 MILLION IN PROPERTY TAX REVENUE
- DECREASED REVENUE SHARING FUNDS
- POTENTIAL LAYOFF OF 380 CITY EMPLOYEES, INCLUDING 73 CETA-FUNDED CITY EMPLOYEES
- SERIOUS CUTBACKS AND/OR ELIMINATION OF CITY SERVICES
- SEVERELY WEAKENED AFFIRMATIVE ACTION PLAN
- POTENTIAL REDUCTIONS IN NEEDED CAPITAL IMPROVEMENTS

If the City is to be prepared for a smooth transition into an era of severely constricted General Fund revenues, timely and decisive policy direction from the Board of Directors is needed. The information contained in this report will hopefully facilitate a careful consideration of available options. Because of the austerity of potential fiscal limitations under Jarvis-Gann, some of the policy alternatives that must be considered are far-reaching and of great consequence.





## ATTACHMENTS



Property Tax Limitation  
Initiative Constitutional Amendment  
(The Jarvis Initiative)

The initiative proposes adding Article XIII A to the Constitution to read:

Section 1.

(a) The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2.

(a) The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

(b) The fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3.

From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4.

Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Section 5.

This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6.

If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.





TABLE I

COMPUTATION OF PROPERTY TAX REDUCTION  
UNDER JARVIS INITIATIVE

\$394,440,374	1975-76 Assessed Valuation (before Homeowners' and Business Inventory Exemptions)
410,375,765	A.V. Increased 2%/year to 1977-78
<u>x            4</u>	
1,641,503,060	Market Value
<u>x            .01</u>	
16,415,030	Maximum Tax Allowed under Jarvis
<u>x            .16</u>	
2,626,404	City Share under current County Distribution Formula
<u>-    157,561</u>	Proportional Tax Increment to PRA
<u>\$ 2,468,843</u>	Net City Jarvis Levy
 \$ 10,187,202	 Projected FY 79 City Levy including State reimbursements
<u>- 2,468,843</u>	Net Jarvis Levy
<u>\$ 7,718,359</u>	<u>Loss under Jarvis</u>
 \$ 7,718,359	 Loss under Jarvis
<u>÷ 38,168,588</u>	Projected FY 79 Total General Fund
=            20.2%	Percentage of FY 79 General Fund Loss under Jarvis



## MEMORANDUM—CITY OF PASADENA

To: All City Employees

Date: February 16, 1978

From: City Manager

Re: Jarvis-Gann Initiative -  
City Budget Implications

As you know, the "Jarvis-Gann Property Tax Initiative" - Proposition 13, will be on the June 6 state-wide ballot. If this Initiative is approved by the voters, the City of Pasadena, effective July 1 of this year, would face an estimated \$7 to 8 million loss in property tax revenue. We must plan for this possibility now and during the next several weeks, the Board of City Directors must make some very difficult decisions on increasing other sources of revenue and reducing City services on the assumption that the Proposition may pass. The Board must determine the services which the City should continue to provide and those services that must be discontinued.

As City Manager, I have the responsibility to present to the Board a variety of options that they have in dealing with the "Jarvis" issue. For the past three weeks, members of my staff and the department heads have developed possible alternatives in reducing services and raising revenues. These will be presented to the Board of City Directors at their regular meeting on February 21. The alternatives are in the form of both budget reductions and suggested revenue increases. The Board will undoubtedly discuss and select a variety of alternatives to offset the loss of property tax revenue if "Jarvis" passes. You will probably hear rumors and read newspaper articles on cutting costs -- especially the number of employees that could be laid off. We estimate, for example, if property taxes are reduced and no other revenues raised to offset that reduction, we would have to lay off almost 400 employees. I am very concerned -- as are the City Directors -- that you do not get the impression that your work is neither appreciated nor valuable to this City if you happen to be employed in areas that are being discussed for possible deletion or reduction. The employees of this City provide a high-level of professional service to this community -- I know this and the Board knows this. We must, however, commence discussing today those ways in which we can reduce the budget if the Jarvis Initiative passes in June.

I can think of nothing more difficult for me than to have to raise the possibility of employee layoffs on such limited and unpredictable information. We do not now know and may not know for almost a year what final impact "Jarvis" could have on our City. We do know, however, that revenue and services will be significantly affected. It is my intent to keep each of you informed as this issue develops over the next several weeks. If you, as an individual, will be affected by any decision that the City Directors make, we will let you know at that time. Remember, the elimination of a particular service does not necessarily mean that because you are employed in that service you would be subject to layoff. Layoff is governed by City procedures and Memoranda of Understanding with the various unions and associations. Many benefits are provided in the event of layoff, and we will advise you of those when the Board approves specific cutbacks.

I regret that this memo to you is necessary, but we believe you should know the problems that we face.



Donald F. McIntyre  
City Manager





Assembly  
Majority  
Consultants

# LEGISLATIVE BULLETIN

ASSEMBLYMAN LEO McCARTHY, Speaker  
ASSEMBLYMAN HOWARD BERMAN, Majority Leader

ASSEMBLYMAN JULIAN DIXON, Caucus Chairman  
ASSEMBLYMAN ART AGNOS, Majority Whip

Legislative Bulletin is an exclusive publication for Democratic members and staff, published during session and to provide a weekly overview of issues before the Legislature. Highlighting significant policy and fiscal commissions from the previous week, the Bulletin provides a preview of upcoming issues before the Assembly and other articles of interest to the Caucus.

WEEK OF JANUARY 23, 1978

KAMH

## INSIDE THIS ISSUE . . .

COMMITTEE REVIEW -- Mentally Disordered Violent Offenders • Controlled Substances • Directory Assistance • Insurance Rate Setting • Contractors Licensing • Human Experimentation • Midwifery • Federal Initiative • Legislators' Salaries • Busing • Drinking Age • Nuclear Safeguards • Tax Reform • Seismic Study.

COMMITTEE LINEUP -- Voter Registration Purge.

ASSEMBLY FLOOR ACTION REVIEW -- Unemployment Insurance.

SENATE MONITOR -- Peripheral Canal • Veterans' Preference.

PERSPECTIVES IN BRIEF -- Reshaping Assembly Office of Research • Mendelsohn Trial • Jarvis-Gann Initiative • Child Abuse Interim Hearing.



FPPC lawyer Mike Baker said Good's ruling is "an unfortunate interpretation of the (Political Reform) act. When you strike negligence, you're saying a candidate isn't responsible for being careful" about campaign statements.

In dismissing the case against former aides Morrison and Lubamersky, the judge said the law "does not define any duty" that campaign staff workers must perform to insure the accuracy of campaign statements.

Good ruled that Morrison's and Lubamersky's attorney's fees will be paid by the State.

An FPPC spokesman said the commission might also appeal Good's dismissal of the case against the two.

Judge Good also said that the FPPC did not have to make a finding of "probable cause" laws had been broken before filing suit, as attorneys for all defendants had claimed.

"In my opinion, the court processes in either a criminal or civil action provide sufficient procedural and substantive due process," Good said.

JARVIS-GANN INITIATIVE -- The Jarvis-Gann initiative, which qualified for the June 1978 state ballot by garnering more than one million signatures, is designed to limit the amount of property tax that can be collected from real property (i.e., homes and businesses).

The initiative proposes to:

- Set a maximum tax rate on real property of one percent of full cash value.

- Establish the "full cash value" as the appraisal determined by county assessors on 1975-76 property tax bills.

(Property that changes ownership after the 1975 assessment, or that is newly constructed, purchased, or not assessed up to the 1975-76 value may be reassessed at current value.)

- Limit increases in fair market value to two percent annually.

- Require a two-thirds vote of the State Legislature to change any state taxes.





- Requires a two-thirds vote of the qualified electors in a local jurisdiction to establish any additional local taxes.

Impact on Local Government -- According to the Legislative Analyst, passage of the proposition would cut local property tax revenues by \$7-8 billion next year. This cut also would result in a loss to local governments of a substantial but unknown amount of federal revenue sharing funds. The success of any effort to impose special taxes is highly unlikely because of the language of the two-thirds vote requirement -- if more than one-third of the qualified voters in a local jurisdiction stayed home from the polls, the proposed tax increase would be defeated even if everyone at the polls voted for it. Unless replacement revenues were provided by state action, local governments would have to make drastic cuts in basic local services, such as police and fire protection, park and recreation development, and street improvements.

Impact on Homeowners and Renters -- The provision limiting property tax to one percent of defined value would result in a \$4 per \$100 of assessed value tax rate limit -- a substantial immediate reduction for homeowners. But the tax savings would be diminished as a result of lower property tax deductions on state and federal income tax returns. Estimates by the Assembly Committee on Revenue and Taxation indicate that \$3.2 billion of the \$7-8 billion savings would go to the federal government in higher income taxes paid by individuals and businesses.

In addition, the dramatic cut in local revenues may affect homeowners adversely by prompting higher insurance rates if the level of police and fire protection is reduced; user charges on basic needs such as water, or services such as refuse collection, may be instituted because passage of additional property taxes to pay for these services would be a practical impossibility.

Renters would be guaranteed no relief under the proposition because landlords are not required to pass on to tenants any of the reduced property tax obligation, and yet renters would suffer the same reduction in quality of services and potential increase in other taxes.

Other inequities would develop because of the method proposed for reassessing property when ownership changes or new construction takes place. Property tax bills could differ considerably between identical houses on the same block depending upon how frequently a home is sold; divorce or death in a family causing a change in legal

owners  
proper  
what c  
millio  
rial p  
of an

Impact  
limits  
for in  
two-th  
have t  
losses

as inc  
tions  
reduc  
and r

and ac  
on re  
tories

prope  
ties  
fican  
for a  
only  
there  
take  
remai  
remai  
would  
pollu

tion,  
were  
jecte  
requi  
1975-  
the 1



ownership could also result in a reassessment and increase in property tax. Further, the proposition does not clearly define what constitutes "newly constructed" property. Does a multi-million dollar construction project expanding an existing industrial plant escape reassessment? Does the addition to a residence of an enclosed patio result in a reassessment?

Impact on Industry and Agriculture -- The one percent tax rate limitation would result in a significant property tax rollback for income producing properties, which account for approximately two-thirds of the State's assessed valuation. But businesses will have to weigh this property tax savings against other potential losses.

Businesses would experience the same offset in savings as individual taxpayers because of increased income tax obligations resulting from the reduction in property tax deductions; reduced local services also could prompt insurance rate increases, and reduced property tax revenues could force high user taxes.

In addition, an important consideration for industrial and agricultural interests is that the proposition limits taxation on real properties, but not on personal properties such as inventories and equipment.

The provision requiring reassessment upon the sale of properties would make it extremely difficult to sell income properties -- the certainty that taxes would multiply would be a significant disincentive to buyers and sellers. Because the provision for assessing "newly constructed" properties will be interpreted only after passage of the proposition (possibly by the courts), there is no way of determining when this type of reassessment will take place. For instance, firms that double in plant size may remain at the original level of assessed valuation if ownership remains the same. A different interpretation of the proposition would require reassessment of an entire plant if any addition, even pollution control facilities, defined the site as "newly constructed."

One particular industry faces the prospect of double taxation, in addition to the effects already discussed. Timberlands were recently removed from the property tax rolls and instead subjected to a yield tax at the time of harvest. The proposition would require timber owners to pay future property taxes on the basis of 1975-76 values, which included timber values, in addition to paying the yield tax required by existing law.





How Will the State Respond -- If the proposition passes, there is no question that the Legislature will be overwhelmed with appeals to replace the \$7-8 billion revenue loss to local governments by increasing state taxes -- the magnitude of the reduction in local revenues would cripple the most basic health and safety services provided, and eliminate numerous programs such as those assisting the disabled, senior citizens and mentally ill.

Because no one believes that local government officials or citizens are genuinely ready to return to the days of a volunteer fire department and a deputized posse for protection, fiscal experts within government and in the private sector have begun calculating the possible ways that state government will have to increase taxes to continue local services.

To produce the lost revenue, the State could be forced to:

- raise the sales tax from six percent to 13.5 percent;
- or
- place a 150 percent surcharge on present income taxes;
- or
- eliminate the present 50 percent business inventory tax exemption and increase the bank and corporation tax from nine percent to 44 percent.

Legislative efforts to develop an equitable tax structure would be severely limited by the across-the-board one percent tax rate limitation and the two percent growth limit. In addition, tax proposals to restore funds to local government would have to have the support of two-thirds of the membership of the Legislature; absences and abstentions would be counted as "No" votes.

The most likely alternative would be a combination of higher sales, personal income, and bank and corporation taxes. However, if a major portion of the property tax loss were made up from sales and income tax, this would represent an enormous shift from business taxpayers to individuals. (Approximately 64 percent of property taxes are now paid by business, while the bulk of income and sales taxes are paid by individuals.)

The "assessment freeze" provision may also result in additional disparities, shifting property tax obligation further onto homeowners because homes are sold more often than businesses and thus would be reassessed more frequently.

nesses  
and ba  
is alr  
the cu  
higes

or inc  
analys  
out th  
income  
this  
and a  
gover  
of Co  
not p

is sc  
ment  
both  
in ei  
of in  
a net

CHIL  
Reso  
to s  
inin  
care  
quac  
cour

prob  
prob  
abu  
Ins  
tre  
to

act  
com  
rec  
reg  
on



The proposition would not necessarily be a boon to businesses, however, if the 100 percent inventory tax were restored and bank and corporation taxes even doubled, as the inventory tax is already considered a disincentive to economic development and the current nine percent bank and corporation tax is one of the highest in the nation.

There are no clear long-term benefits to either business or individual taxpayers under the Jarvis-Gann initiative. An analysis of the proposition by the Senate Office of Research points out that replacement revenue is likely to come from sales and income taxes, and concludes "the two inescapable consequences of this will be a shift of tax impact from business to individuals, and a severe curtailment of local control over the provision of government services." At the same time, the California Chamber of Commerce analysis concludes, "The net effect upon business is not predictable."

The impact upon housing patterns and business development is somewhat predictable, however. The method proposed for assessment or reassessment of property would certainly tend to inhibit both movement and expansion. The "assessment freeze" might produce, in effect, an economic and social freeze if the certain penalty of inequitable taxation is imposed on those who sell or purchase a new home or business.

CHILD ABUSE INTERIM HEARING -- Last November the Assembly Human Resources Committee held hearings in Los Angeles and San Francisco to study the operation of laws relating to child abuse. By examining the actual process that an abused child and the abusing caretaker go through, the committee sought to identify the adequacies and inadequacies in current laws and practices at the county level.

Currently California law provides two approaches to the problem of child abuse. First the Penal Code contains definitions, prohibitions and punishment for specified acts considered to be abusive and wrongful. Second, the Penal Code and Welfare and Institutions Code contain provisions for reporting, detecting and treating child abuse, including mandates for elaborate procedures to safeguard the victim and offer social services to the family.

It was emphasized at the hearing that presently the interaction between the State, local agencies, and county services is complex and different from county to county. For example, a state requirement that counties provide a 24-hour telephone "hotline" for reporting child abuse incidents was fulfilled by some counties with only a 24-hour public service telephone.





A BRIEF ANALYSIS OF A PROPOSED INITIATIVE  
BY HOWARD JARVIS  
RELATING TO PROPERTY TAXATION  
AND RELATING TO LEGISLATIVE  
VOTING REQUIREMENTS ON CERTAIN BILLS

SEPTEMBER 26, 1977

PREPARED BY STAFF TO  
THE ASSEMBLY REVENUE AND TAXATION COMMITTEE



## BRIEF ANALYSIS OF JARVIS INITIATIVE

### I. Provisions

The initiative limits property tax on real property to 1% of defined "value" (this is a \$4.00 per \$100 of assessed value tax rate limit).

The defined "value" is the 1975-76 value of property, adjusted by CPI not to exceed 2% per year or the current value when property is purchased or newly constructed.

Any increase in the level of state taxation must be passed by a 2/3ds vote. The Legislature would be prohibited from levying a property tax or property transfer tax.

Local governments are authorized to impose "special taxes" other than property taxes or property transfer taxes, with approval of a 2/3ds vote of the Electorate.

The counties would levy the 1% tax and "apportion it according to law to the districts within the counties."

### II. Background

The objective of this initiative is to limit the amount of property tax that can be collected from real property. The primary reason for the recent focus of attention on the property tax has been the explosive increases in the cost of residential real property and commensurate assessed value increases in the past few years.

In 1968 an initiative (Proposition 9) proposing a 1% limit was placed on the November ballot by Los Angeles Assessor Phil Watson and was defeated by the voters by a vote of 2,146,010 Yes to 4,570,097 No (32%-68%). The measure was rewritten and brought back as Proposition 13 in November 1972. The second "Watson Initiative" proposed a series of tax rate limits for the various units of local government -- which in the aggregate amounted to a limit of between 1.75% and 2%. Again the initiative was defeated, by a vote of 2,700,095 Yes to 5,213,485 No (34.1% - 65.9%). Subsequent to this last initiative, the Legislature acted to impose separate rate limits in cities, counties, and districts and a revenue limit on schools in SB 90 of 1972. Since the passage of these tax rate limits, average property tax rates have in fact declined.





### III. Fiscal

Local property tax revenue- loss of \$7-8 billion (also unknown additional loss of federal revenue sharing funds).

State cost savings - \$700-800 million due to lower reimbursements for homeowners exemption and inventory exemption, and decreased deductions on income tax and bank and corp tax. Unknown increase in state costs for school equalization aid.

Source: Legislative Analyst

### IV. Comments

1. Many of the provisions of this initiative are vague and pose serious problems for implementation. For example, how will the 1% be divided up among the local districts? How will the reassessments be divided up? The initiative is written to imply that only "districts" will share in the proceeds of the 1%. Does this freeze out cities and counties totally?
2. There is no indication as to how this measure will be funded. Is the intent to "cut" local government services by \$7-8 billion? If so, what services will be eliminated? Police and fire protection? Parks and recreation?

---

If the intent to have the State raise state taxes by \$7-8 billion, what state taxes would be increased to pay for these local services? What would be the net impact on taxpayers? (Many homeowners could have a net tax increase).

To generate \$7-8 billion, any number of state tax increases is theoretically possible, however the following illustrates the magnitude of change in each of the major state taxes, if relied upon exclusively:

#### Sales Tax

If the state increased the sales tax rate to raise the revenue for subventions to local agencies to replace the revenue loss they would experience under this measure, the state sales tax rate would be 12.25%. This would raise an estimated \$7.5 billion.

The total (state and local) rate would be 13.5%, except in the Bay Area, where the total rate would be 14%.



## Personal Income Tax

If replacement revenues were provided by increasing the personal income tax, a 150% surcharge would have to be imposed, on top of the present income taxes.

## Bank and Corporation and Business Inventory Taxes

If replacement revenues were provided by repealing the business inventory exemption and increasing the Bank and Corporation tax, business inventory would be 100% subject to property taxes and the tax rate would have to be increased from 9% to 44%.

3. The proposed property tax reduction would be "across the board". Approximately 65% of the benefits (or more-- See comment 4) will go to the owners of business and income producing property.
4. The assessment freeze is designed to particularly benefit business at the expense of homeowners. Property is to be reassessed when sold. Because homes are sold far more frequently than business properties, this initiative will shift a greater and greater percentage share of the property tax burden on to homeowners.

For example, the major industrial plants in this state may never be sold. They would then carry their 1975 assessments (plus 2% per year) indefinitely. On the average, a single family home is sold about every seven years.

5. The proposed prohibition against state property tax and the 2/3ds vote required for increasing other state taxes might jeopardize the State's credit rating and the future salability of bond issues now authorized (such as the pollution control bonds).
6. In addition to shifting tax burdens from business to homeowners, the assessment freeze (+ 2%) as proposed would appear to have the following impacts:
  - (a) It would slow the rate of growth of property tax increases.
  - (b) Many homeowners will pay higher property taxes than their neighbors in the same market value homes for the same governmental services
  - (c) A "locked-in" effect will be produced because of the higher tax burden if one home is sold and another purchased. If an older couple wished to move from a large old house to a condominium or retirement-type village nearer their family, there could be a sizeable net property tax increase.





7. The initiative is unclear as to the relationship of the 1% limit and the homeowners exemption. It seems to imply that the limit will come after the exemption. This would produce a property tax increase for many low-value homes (market value: \$10,000 or less).
8. This limit only applies to real property. Will this mean higher taxes on personal property?
9. Subdivision (a) of Section 1 states: "The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective. This provision would appear to invalidate levies for outstanding bonds which were not voted on. Such bond issues could go into default.

Since funds to pay existing redevelopment agency bonds are not excluded, the impact of the 1% limit on redevelopment agencies is likely to cause default on some redevelopment agency issues.

10. The measure appears to prohibit any future G.O. bond issues for any purpose, even if such are voted by a 2/3ds vote of the people. How are new, needed capital facilities to be built? How will local governments construct needed facilities for water? The people are also prohibited from raising a local property tax rate for a city, county or school purpose by a vote to provide a necessary service or to respond to an emergency (e.g. earthquake, flood, drought, fires).
11. It appears that this initiative could cause some substantial overassessments of properties. The value of property (other than property sold or newly constructed) is to be the 1975-76 value (plus up to 2% growth per year) for properties which go down in value after 1975-76 (contrary to general impressions there are many parcels of property which have declined in value for one reason or another); such properties will carry the higher 1975-76 value and will be over-assessed.

The only way an assessment of a property not sold or newly constructed can be reduced under the initiative is if there is a reduction in the consumer price index (or comparable data to the CPI for the "area under taxing jurisdiction.")

This defect will create a peculiar problem for owners of standing timber. The value of timberland (real property) included the value of the standing timber in 1975-76. Subsequently, this value was removed from the property tax and timber is now subject to a yield tax when harvested.

It appears that the Jarvis initiative which requires the use of the 1975-76 value, would cause timber owners to pay property taxes in the future on their land with 1975-76 timber values included. Since the yield tax is not repealed





12. Section 2 provides for re-assessments for "newly constructed" property. The term is not defined. Could a firm add a \$6 million plant to an existing small plant? Is this "newly constructed" or an addition?

If new construction does not include additions and alterations, there would be a major loophole wherein billions in new construction could escape tax entirely.

However, if new construction does include additions, this will severely curtail rehabilitation of homes, adding of rooms, etc. for fear of a total re-assessment of the entire property to present value.

13. A sizeable portion of the property tax reductions resulting from the 1% limit will be lost by the taxpayer, to the federal government in the form of higher federal taxes.

It is estimated that \$3.2 billion (or 42% of the total) will be drained away in higher federal taxes (due to the loss of federal income tax deductability by business and individuals of the full \$7.5 billion).

14. Local governments will lose a substantial portion of the funds they receive from federal revenue sharing if this proposal passes.

15. While this initiative basically deals with a reduction, limit, and freeze of property taxes, Section 3 deals with an unrelated issue of the Legislative vote requirement on certain bills. It seeks to repeal, in the context of a total bill, the majority vote requirement for passage of all measures increasing the level of state taxes and require a 2/3ds vote. In 1976, the voters approved a constitutional amendment reducing the vote required for an increase in the Bank and Corporation Tax from 2/3ds to a majority.

The two-thirds vote as proposed would be an exacting requirement because it is two-thirds of the total membership and absences and abstentions are counted as NO votes. Even the majority requirement, is a more rigorous requirement than the congressional one, which is a majority of a quorum. (Theoretically, this could be as low as 26% of the total membership).

What should the vote requirement to raise and lower taxes be? How one answers this question depends upon one's views of representative democracy. Should the majority rule?



16. This initiative may be unconstitutional in that it contains more than one subject matter (i.e. property tax provisions, votes by Legislature on bills). Article II Section 8 (d) provides that "an initiative embracing more than one subject may not be submitted to the electors or have any effect."

## VI. Impact

### Impact on Homeowners

When the balance sheet is added up, the net impact on homeowners may not be favorable. Initially, the measure provides a substantial property tax reduction. For a \$47,000 home, the reduction would be about \$740 (using statewide averages).

However, as noted in the comments section, a sizeable portion of this will disappear as the reduction of the amount of property tax which is deductible from state and federal income taxes will cause higher income taxes.

In addition, if state taxes are increased to make up the loss of revenue to local government, homeowners will in all probability experience a net tax increase as they pay a smaller share of the total property tax (35%) than they do of other major taxes such as sales tax, income tax, etc. It is probably not feasible to increase the state bank and corporation tax rate to offset the local property tax reductions this initiative provides to business and income producing property. Just to offset the business share would require a rate of 33% which is over triple the rate in any other state in the nation.

If local governments are forced to curtail services to make up the loss, this will create chaos in local government. The social costs of this alternative will be hard to measure but the impact on homeowners will be significant. For example, insurance costs can be expected to increase if police, fire, and street lighting expenditures are cut.

### Impact On Renters

The impact on renters is uncertain. Rented residential property is included within the freeze and limit. However, there is no guarantee that the landlords will reduce rents commensurate with the reduction in tax. In those areas with low vacancy rates, it is likely that renters will see little, if any, immediate reduction in rents.

On the other hand, renters will have to pay a full share of any new taxes which are imposed to cover the loss and forego the local government services which will have to be cut if this initiative passes.





## SENATE OFFICE OF RESEARCH

SENATE P.O. BOX 47, STATE CAPITOL SACRAMENTO, CALIFORNIA 95814  
(916) 445-1727

William M. Kier, Director

JARVIS-GANN INITIATIVE

The Jarvis-Gann initiative (attached) which adds Article XIII A to the Constitution, would affect California taxes in three ways: It would set a maximum property tax rate on real property of one percent of full cash value. It would set the full cash value at the county assessors' 1975-76 valuations, to be adjusted upward by two percent annually, except that when property is newly constructed or changes ownership the new appraised value would be used. It would require a two-thirds vote of the Legislature to increase any state taxes, and a two-thirds vote of the qualified electors of any local government to establish any additional local taxes.

Proponents of the initiative have argued that the size and growth of the property tax are the most serious problems of public finance facing California at this time. Thus, absolute limits on the rate and growth of the property tax are desirable since they attack the problem directly. It can also be argued that if shock therapy is needed to realign California's governmental institutions to more clearly reflect the peoples' desires, the initiative provides that shock. At the least, the initiative would impose a form of "instant sunset"--an opportunity to weed out or streamline obsolete or inefficient units of government. Also, by cutting the property tax by two-thirds, the state will be forced to fall back on the progressive income tax and the roughly proportional sales tax for the bulk of the replacement revenue--a move which may be favored by some of those who prefer a more progressive California tax structure. The two-thirds vote requirement will please those who feel that the more difficult it is to increase taxes the better. Finally, it can be argued that passage of this initiative will improve our business climate by signaling to business leaders the California voter's determination to hold down the costs of government.



The Legislative Analyst has indicated that the Jarvis-Gann initiative will reduce the property tax by \$7 to \$8 billion in 1978-79. In addition, with the consequent reduction in "tax effort", local governments will lose a substantial amount of federal revenue sharing funds. In the face of such a property tax cut, the Legislature will probably be forced to replace most of the local loss by increasing state taxes--most likely some combination of the sales, income and corporation taxes which are estimated to produce around \$12 billion in 1978-79. To make up \$7 to \$8 billion, the sales tax could be raised to 13.5% (up from its present 6%), or the income tax could be increased across the board by 150%, or the corporation tax could be increased from 9% to 44%. Probably no single tax would be required to make up the whole amount--perhaps a combination such as an 8½% sales tax, a 50% income tax surcharge and a 20% corporation tax rate would be selected. However, if a major portion of the property tax loss is made up from income and sales taxes rather than the corporation tax, there would be an enormous shift from business taxpayers to individuals. This is because most of the property tax (roughly 65%) is now paid by business while the bulk of the income and sales taxes are paid by individuals. (The effect of the initiative on renters is uncertain. There is no requirement that landlords reduce rents in the amount of their tax savings. But renters would be subject to any new sales or income tax imposed to replace the lost property tax revenue).

The "assessment freeze" provision of the initiative will also cause some serious tax shifts toward individuals over time. All property values will be reset at their 1975-76 levels and then moved upward by 2% per year (or downward if the Consumer Price Index moves downward). New structures, and real property sold after the 1975 assessment, will be set at their market value at the time of completion or sale. Homes, on the average, are sold more frequently than business property, and thus the appraised values of homes will rise much more rapidly than the values of business property. (This factor would be in addition to the present market forces which now force home prices to rise faster than other values.) In addition, the freeze in assessments would have a "locking in" effect, which would discourage homeowners from moving because of the built-in tax increase each time the home is sold. And those whose employment forces them to move frequently would have substantially higher taxes than those who do not move.

The assessment freeze provision would frequently result in severe overassessments. Many properties in California decline in value, whether through deteriorating neighborhoods, shifts in economic activity, fire, flood, etc. The initiative provides no method of adjusting assessments for such reductions in value, other than through the sale of the property. (And





the Legislature would not be able to provide relief other than by proposing another change in the Constitution).

The two-thirds vote requirements also present problems. It has been argued that it is unconstitutional for this initiative to contain a two-thirds vote requirement for state taxes, because that is a subject separate from the property tax limitation, and no initiative may constitutionally cover more than one subject. The local two-thirds requirement refers to "qualified electors" rather than "voters"--those opposed to an increase in local non-property taxes could cast their votes by staying home. This would make increasing local taxes a practical impossibility.

The initiative suffers from unusually poor drafting. A number of the provisions are vague and would have to be clarified through court interpretation or further constitutional amendments.

- The initiative appears to prohibit the levy of property taxes to pay the interest and principal on outstanding bonds which have not been voted by the people. It also prohibits the use of property tax funds for any new bonds, even those approved by a two-thirds vote.
- The initiative provides that the property tax be divided among taxing districts "according to law". Allocation of the funds would be left to future legislative action. (And it is not clear whether the intent is to exclude cities and counties from receipt of property tax funds altogether).
- The limitation only applies to real property on the county assessment rolls. It is not clear whether personal property (boats, inventories, some office furnishings, etc.) and state-assessed property (utilities and common carriers) are to be outside the limit, or whether they are not to be taxed at all.
- It is not clear whether the limit comes before or after the homeowners' exemption. The tax on low valued homes could actually increase if the limit is interpreted to apply before the exemption.
- "Newly constructed" is not defined. It is not clear whether the entire property would be revalued when an addition is made, or whether the assessment rolls would have to maintain the separate valuations of all improvements as they are added.
- Unless the timber yield tax is repealed by future legislation, both property tax and yield tax would apply,





because the 1975-76 roll contains the value of standing timber.

--It is not entirely clear that the one percent limit applies over all jurisdictions in which the real property exists, or whether the limit applies separately to each jurisdiction (i.e., no city, county, or district may levy a tax rate in excess of one percent of full cash value).

--The limit is with respect to "full cash value", but the initiative sets out a definition of "Fair market value". It is not clear whether the terms are intended to be synonymous.

In summary, though the Jarvis-Gann initiative does provide the voters an opportunity to cut substantially both the size and growth of the property tax, it is probably unrealistic to suppose that this will automatically reduce the size of government or the aggregate level of state and local taxes. It is likely that state government will respond with replacement revenue, primarily from the sales and income taxes, and the two inescapable consequences of this will be a shift of tax impact from business to individuals, and a severe curtailment of local control over the provision of government services.

December 13, 1977  
Martin Helmke

Note: Many of the points outlined here are covered in more detail by an analysis prepared by the staff of the Assembly Revenue and Taxation Committee.



CHECKLIST  
OF LEGAL AND FISCAL ASSUMPTIONS  
FOR USE IN PREPARING CITY REVENUE PROJECTIONS  
UNDER PROPOSITION 13

(We are recommending that all cities assume certain interpretations and definitions of the language of this initiative constitutional amendment for the sake of comparability between cities and to get on with the task of preparing alternative budgets. The League's recommendations represent a reasonable and arguable opinion—not necessarily a prediction of how the courts or the Legislature will respond if required to implement the constitutional amendment. In many cases we have no idea how the courts or the legislature may respond.)

1. (See Section 1(a) of Proposition 13.)

Should all local agencies which impose an ad valorem property tax rate (counties, cities, special districts, school districts) consider themselves as "districts" for purposes of Section 1(a) and Section 4?

League Recommendation: The proposition is clearly ambiguous on this point. Cities are not defined as districts anywhere in the Revenue and Taxation Code or Government Code at the present time. It is possible that the proponents ballot arguments will clarify this question. In the meantime it is reasonable to believe that the authors of Proposition 13 intended that all local agencies would continue to receive a modest amount of property tax revenue and not that only special districts would be capable of receiving property tax revenue from the 1% limit.

2. (See Section 1(a).)

Does the 1% limit on the amount of any ad valorem tax on real property supercede and therefore repeal the current homeowners exemption and therefore eliminate the current state reimbursement for the homeowners exemption? Another consequence of this ambiguity is that if the homeowners exemption is repealed by the imposition of a 1% limit, homes which are valued at less than \$10,000 would realize an increase in their property tax burden.

League Recommendation: A strong argument can be made that the adoption of Proposition 13 is a new and complete scheme of ad valorem taxation and that all current exemptions are, in effect, preempted. However, a more conservative reading would be that the 1% of full cash value maximum would be applied after the current \$7,000 full cash value exemption is taken. Therefore, the entire homeowners subvention to local agencies would not be eliminated but simply reduced in the same proportion as the tax rate is reduced.

3. (See Section 1(a).)

How well the remaining property tax revenue generated from the 1% of full cash value limit be "apportioned according to law to districts within the counties"? What assumption should city budget planners make as to how the Legislature will apportion such revenues?

League Recommendation: Since the Legislature will have an infinite variety of proposals, perhaps the most conservative assumption to make is that revenues will be apportioned to local agencies in the same ratio as property tax revenues were received by those agencies in fiscal year 1975-76. This recommendation is not helpful to cities which did not levy a property tax rate in that year or to cities and special districts which have been formed since 1975-76. In those instances we simply have no idea how the Legislature might respond in implementing legislation.





4. (See Section 1(a) and Section 2(a) and (b).)

Does the 1% of full cash value limit apply to personal property on the ad valorem roll? The most common personal property is business inventory. Is personal property included in the definition of fair market value base, Section 2(b) which is allowed to grow up to 2% a year?

League Recommendation: It does seem fairly clear that, by the language of Section 1(a) and 2(a), the 1% of full cash value is limited to real property and the definition of full cash value is restricted to the local roll of real property. Because of that language in Sections 1(a) and 2(a), we believe it is a fair reading to assume that all properties which are included in the definition of "full cash value" will also be the same properties included in the definition of the "fair market value base". Therefore, if this interpretation is correct, the growth of business inventory value may exceed 2% and would in fact reflect actual market value as it is defined today. It is clear that the tax rate for personal property pursuant to Section 12, Article 13 of the Constitution must be the same tax rate as the rate for secured property in the preceding year.

5. Which budget items could not legally be eliminated?

League Recommendation: To date the League staff has not completed its research work on which city costs are mandated to such an extent that a city would be required to continue the support of services or benefits in spite of such a drastic change as Proposition 13. Clearly, items such as retirement benefits, federal mandates like unemployment insurance, qualify for this category of mandated expenditures. This is an area that needs further exploration.

6. (See Section 2(a).)

How will remodeling, reconstruction and other forms of structural modifications or additions be treated? How will "newly constructed" real property be defined for the purposes of its full cash value? If all expansion, modifications and remodeling is defined not to be newly constructed property, then major multi-million dollar increases in actual value will be ignored and the original property and improvements will retain the 1975-76 value for tax purposes. This could result in a major loophole for many homeowners and businesses. It is important, especially for city budget officers who are estimating revenue, if the city is on the verge of major commercial or industrial growth and is depending upon increased assessed valuations from major expansion of current structures or facilities.

League Recommendation: It seems to us most likely that the Legislature would find the point between remodeling or expansion and new construction at a particular dollar level for various types of improvements. An example would be a \$20,000 or \$30,000 improvement on an existing home would classify it as new construction. Perhaps for commercial and industrial the limit would be \$100,000. We find it impossible to be any more specific or helpful on this item.

7. (See Section 2(a))

How many ways could a house or commercial/industrial property undergo a non-legal but practical "change of ownership" without undergoing reassessment? Could leases be bought and sold? Can the city plan on any increased assessment valuation whatsoever from resales and changes in ownership?

League Recommendation: Given the creativity of lawyers generally, it is difficult to believe that innovative and artful evasions to Section 2(a) could not be devised in view of the fabulous incentive for avoiding reappraisal of full cash value.





8. (See Section 2(b).)

What is the practical definition of "fair market value base"? Does such a base include properties which are resales or newly constructed in the same year as the 2% inflationary factor is applied to the roll? Does the fair market value base apply only to the local roll or the state and local roll? Does the 2% growth factor apply to each parcel regardless of whether or not it is a resale or newly constructed improvement or does it apply only to those parcels which have not been reappraised to current value because they are resales or newly constructed?

League Recommendation: Because resales and newly constructed improvements will be appraised up to current market value, it seems difficult to believe that the proponents intended that even these parcels will be factored by a 2% growth limit. The most conservative assumption, therefore, is to assume that the fair market value base does not include those properties which are for other reasons appraised at current market value. It is also reasonable to assume that fair market value base does not include the state roll, since Section 2(a) specifically defines full cash value as the valuation of real property as determined by county assessors.

9. (See Section 4.)

Will imposition of any new tax (whether a tax for the first time or a tax increase or change in base or composition of rate) require a 2/3 vote of all registered voters as a special tax pursuant to Section 4 of the initiative? For example, if a charter city wished to increase its utility user tax after the initiative passes, could it do so without the approval of 2/3 of all registered voters? Another way of asking this question is what is the definition of a special tax? To elaborate further, does it also apply to municipal business license taxes, hotel-motel tax, or other local taxes? This question is critical because if the lost property tax revenue is to be replaced even partially at the local level, cities must have the practical ability to raise alternate revenues.

League Recommendation: It is the preliminary view of the League staff that special taxes would be all taxes that the city is presently authorized to levy, other than ad valorem taxes on real property or transaction tax or sales tax from the sale of real property. In other words, the voters would be prohibited from increasing ad valorem taxes on real property or transition tax or sales tax on the sale of real property by a vote, but would be authorized to increase or impose any other tax with approval by 2/3 of the registered voters. A more conservative interpretation would be that special taxes are whatever the Legislature determines special taxes to be. However, it is difficult to believe that the drafters of this initiative intended to give the Legislature the authority to define special taxes however they wished and therefore the discretion to make such a restriction meaningless by defining special taxes as perhaps a local income tax and permitting any other tax to be levied by a majority vote of the city council.

10. (See Section 1(a) and (b) and Section 2(a) and (b).)

The impact of Proposition 13 on redevelopment financing, tax increment financing, and capital financing utilizing non-voted debt is overwhelming and drastic. City budget planners should review carefully the impact of Proposition on redevelopment and tax increment financing. Because of the twin effects of great reductions and minimal assessed value appreciation, many, many current contractual obligations of the redevelopment agency may be immediately jeopardized. The budget should provide for the possibility of utilizing general fund revenues to assist the redevelopment agencies. The general impact of the initiative on long-term debt generally and the ability to utilize general obligation bonds to finance facilities for people and commercial growth is also jeopardized.



There is no exemption for voted general obligation bond debt service tax rates in the proposition. In preparing an alternate budget in cities where capital development programs are being carried out, alternate forms of financing must be anticipated. Under the language of Section 1(a), general obligation debt service which has been voted after the enactment of Proposition 13 can only be funded from the property tax rate under the 1% limit.

11. Business Tax Windfall.

It might be helpful for city officials to review the impact of the massive tax rate reductions on city taxpayers. Clearly, if the average combined tax rate within the city is approximately \$12 and this is reduced to a \$4 maximum (\$4 per \$100 of assessed value is equal to 100% of full cash value), many major and substantial industrial and commercial taxpayers will enjoy sweeping tax reductions which will be at the expense of municipal services generally. In fact, because owneroccupied single family dwellings represent no more than a quarter of the tax roll statewide, three-quarters of the tax relief realized from across-the-board tax rate reductions will go to income producing and other business properties. In preparing an alternate city budget, it may be useful to estimate the tax reductions which will accrue to major business taxpayers in the city that enjoy substantial city services (police, fire, water treatment, sewage treatment, streets, etc.).

12. (See Section 2(b).)

Can a city, for revenue projection needs, assume that the initiative permits assessors to go back to the 1975-76 value of the local roll and raise the "fair market value base" by 2% for each year between 1975-76 and 1978-79, the first fiscal year in which the initiative will be effective?

League Recommendation: While the language is not at all clear in this respect, it is conservative and not unreasonable to assume that assessors will be permitted to factor the tax roll prior to the effective date of the initiative but after the base year 1975-76.

13. (See Section 2(a).)

Is state-assessed property as defined in Section 19 of Article 13 of the Constitution outside the definition of full cash value and therefore exempt from the 1975-76 assessed value freeze? This is especially important for cities which are planning to estimate their revenues under the proposition and have substantial state-assessed property within the city. (This includes pipelines, flumes, canals, ditches and aqueducts lying within two or more counties, and property, except franchises owned or used by regulated railway, telegraph, or telephone companies, car companies operating on railways in the state and companies transmitting or selling gas or electricity.

League Recommendation: Section 2(a) clearly indicates that the full cash value means the county assessors valuation of real property. We think it is conservative to assume that property which is not assessed by the county assessor is excluded from the 1975-76 assessed value freeze. This means that cities with substantial properties assessed by the State Board of Equalization can plan on revenue growth unrestricted by Section 2(a).

14. (See Section 2(a) and (b).)

If major properties or even neighborhoods have experienced a decline in market value since 1975-76, should the city use the 1975-76 value for tax revenue planning purposes (plus 2% per year) anyway?





League Recommendation: It appears that there is no way that properties which are experiencing declining value can be reassessed to reflect that decline unless such properties are sold or experience reconstruction. Therefore it is reasonable to assume that even if certain property values within the city have declined since 1975-76, for city revenue planning purposes, the 1975-76 value will be the value for property taxes. While it is difficult that the proponents intended that some properties could be over-assessed, there clearly are no provisions permitting reassessment because actual value has declined.

15. As tax effort is reduced by means of substantial reductions in local tax rates, city and county share of general federal revenue sharing will be substantially reduced. In addition, other types of federal aid may be affected to the extent that matching funds will no longer be available to attract additional federal dollars. To the extent possible, each city revenue planner should estimate reductions in federal assistance due to either the drop in tax effort by the city, or the inability in the future to match available federal grants.

As we indicated at the outset, these recommendations reflect a conservative interpretation of many of the ambiguities and undefined words or phrases in Proposition 13. We have not been able to devote substantial legal research to these questions and the recommendations are offered only for the purposes of preliminary fiscal planning in the event that Proposition 13 is approved. Most of these question will be resolved in a final way only after the initiative passes and the Legislature or the courts will be required to address them.

When an alternate budget or fiscal analysis of the initiative's impact on your city is complete, please forward a copy to the League's Sacramento office.



## SUMMARY ANALYSIS OF "JARVIS" INITIATIVE

Constitutional Amendment — Apparently Qualified for June 6, 1978 Ballot

### Provisions

#### 1. Local Government

- (a) Constitutional limit on real property tax of \$4 per \$100 of assessed value (1% limit). Bonded debt already voted is excluded.
- (b) Counties would levy the \$4 tax rate and distribute the revenue according to statute (to be enacted by the Legislature) "to the districts within the counties."
- (c) The constitutional amendment would take effect July 1, 1978, if approved on June 6.
- (d) Local agencies are authorized to impose "special taxes", which are defined only as taxes other than property taxes or property transfer taxes, if approved by a 2/3 vote of the qualified voters.

#### 2. Property Assessments

- (a) Full cash value is defined as the 1975-76 value of property, adjusted by CPI, not to exceed growth of 2% per year or the current value when property is purchased or newly constructed.

#### 3. State Taxes

- (a) Any legislative increase in the level of state taxation must be passed by a 2/3 vote of each house.
- (b) Legislature is prohibited from levying a property tax or property transfer tax.

### Basic Issues

#### 1. Replacement Revenue?

Legislative Analyst estimates a local property tax reduction of \$7 billion to \$8 billion. The constitutional amendment proposes no replacement revenue. Equivalent state tax rate increases which generate an additional \$7-8 billion are:

- 12% sales tax, or
- 150% surcharge on state personal income tax, or
- 44% rate in bank and corporation tax and 100% taxation of business inventories.

#### 2. Which Taxpayers Are Benefited?

Homeowners would receive only \$2.5 billion (1/3) of the \$7.5 billion tax relief. Business, agricultural and other income producing property are the primary beneficiaries. Are these the neediest taxpayers?

Homes and other properties which are frequently sold will be valued substantially higher (and carry a higher tax burden) than properties which do not change ownership. Is this an equitable measure of need for tax relief?





2. Which local services will be reduced or eliminated? How will the limited property tax revenue be distributed?

The proposed constitutional amendment provides no basis for how the counties or the Legislature will distribute the greatly reduced revenues. Combined tax rates throughout the state average \$11.60, which would be cut an average of \$7.60 per \$100 assessed value. If not completely replaced by new local revenue sources or state subventions, massive reductions in city, county and school services will be necessary.

Finally, if the language of the initiative is interpreted strictly, cities would receive no property tax revenue whatsoever. Section I (a) reads: "The 1% tax to be collected by the counties and apportioned according to law to the districts within the counties." Unless cities are held to be "districts", city property tax revenue will be eliminated.



**California Chamber  
of Commerce  
Special Report**

## **Jarvis - Gann initiative**

**Property tax collections in California  
would be reduced \$7 to \$8 billion  
annually. Revenue replacement biggest  
unanswered question.**

by James P. Kennedy  
Taxation Department

The Jarvis/Gann initiative is a proposed constitutional amendment designed to sharply cut back property taxes on homes and to prevent future tax increases due to rising property prices. It also contains vote requirement provisions to make increasing tax levies by the state or local agencies more difficult.

The measure has qualified for the June 6 primary election ballot. If approved by the voters, it would apply to the fiscal year starting July 1, 1978.

Sponsors of the initiative were Paul Gann, chairman of the People's Advocate, and Howard Jarvis, chairman of the United Organization of Taxpayers.

### **Provisions**

1. Limits the property tax on real property to one percent of the "full cash value." Full cash value means the valuation on March 1, 1975. That amount may be increased by the consumers price index but not by more than two percent per year.

### **Exceptions**

a. Properties which are either sold or "newly constructed" after March 1, 1975 are valued at the then current market price, but increases thereafter are subject to the two percent limit.

b. Taxes may be levied above the one percent limit to service bonds authorized by the voters prior to the passage of this initiative.

2. "Cities, counties and special districts" are authorized to impose "special taxes," but not additional property taxes or property transfer taxes. Any new local taxes require approval by two-thirds of the "qualified electors."

3. The one percent tax would be collected by counties and apportioned "according to law" to the "districts" within each county.

4. Any increase in state taxes must be passed by a two-

thirds vote of the legislature.  
Limits the property tax on real property to one percent of the "full cash value." That amount may be increased by the consumers price index, but not by more than two percent per year.

thirds vote of the legislature.

5. State property taxes and property transfer taxes are prohibited.

*Note:* Provisions of this initiative are not entirely specific.  
**Effect on local agencies**

Property tax collections in California would be reduced \$7 to \$8 billion annually, according to the legislative analyst. The average total tax rate in California was \$11.33 in 1975-76. The one percent limitation would reduce every tax rate on real property to \$4. Local agencies would receive reduced federal revenue sharing apportionments since these funds are based, in part, on local tax effort.

The impact of the property tax revenue loss would vary by type of agency (city, county, special district or schools). See Table 1. The reliance upon property taxes also varies locally with spending habits and tax base.

The initiative is unclear as to how the revenues "collected by the counties and apportioned according to law to the districts within the counties" would actually be divided. The distribution of property tax revenues to agencies on a countywide basis is a significant departure from the current method of distributing the revenues only to the districts in which the property is located. Competition for the sharply reduced tax revenues would be keen. Also uncertain is whether cities and counties would be deemed "districts" and thus qualify for a portion of the reduced revenues.

After the initial property tax revenue reduction under this measure, property tax revenues would increase as a result of





new construction, reappraisal upon sales and the two percent inflation factor. The overall increase would likely be lower than the 10.8 percent average annual increase in the period 1967-68 through 1976-77.

The requirement that a two-thirds vote of the "qualified electors" approve any new local tax would make replacement of lost property taxes difficult. "Qualified electors" apparently means that two-thirds of all registered voters, not just those voting on a measure, must cast votes for a tax increase. Total voter turnout on local issues typically falls far short of two-thirds of those registered, except when the issue coincides with a gubernatorial or presidential election.

This vote requirement and the prohibition against any new property taxes, even for capital improvements, would make capital outlays, such as for schools and water treatment facilities, difficult to finance locally.

Unlike previous tax limitation proposals, this measure does not provide for the ability of local agencies to levy taxes without voter approval in order to cope with public emergencies such as for floods, earthquakes or fires.

Local agencies may apparently continue to levy taxes for the purpose of servicing bonds "approved by the voters" prior to the effective date of the initiative. The measure does not permit taxes in excess of the one percent rate for the bonds issued without voter approval which also currently rely upon property taxes for repayment.

#### **Effect on state government**

Reduced property tax rates would mean lower state reimbursements for homeowner's exemption and inventory tax exemption. Together with increased state collections of the personal income tax and bank and corporation tax, due to the decrease in deductions for property taxes, this could bring about a savings to the state of \$700 to \$800 million annually.

#### **Replacement revenues**

The Assembly Revenue and Taxation Committee estimates that one or some combination of the following tax increases would be necessary to replace the lost \$7 to \$8 billion in property taxes:

1. Repeat the 50 percent business inventory exemption and increase the bank and corporation tax rate from nine to 44 percent.
2. Increase the sales tax rate from six to 13.50 percent.
3. A personal income tax surcharge of 150 percent, in effect increasing the maximum rate from 11 to 27.5 percent.

**"...if state taxes are increased to make up the loss of revenue to local government, homeowners will in all probability experience a net tax increase as they pay a smaller share of the total property tax (35%) than they do of other major taxes..."**

Local agencies would probably experience faster budgetary growth if this measure results in full replacement of lost property taxes with new revenue sources such as the personal income tax, sales tax and bank and corporation tax. These alternatives have historically grown considerably faster than property tax collections.

#### **Ten year growth of major state and local taxes population and inflation**

	1967-68	1976-77	% Increase
Population	18.9M	21.2M	12.5
California CPI	102.2	174.8	71.0
Property tax levies	\$4,111M	\$9,368M	127.9
Bank and Corp. taxes	\$ 577M	\$1,642M	184.6
Sales/Use tax (6%)	\$1,792M	\$5,460M	204.7
Personal income tax	\$ 352M	\$3,754M	294.0

**Income producing properties amount for about two-thirds of the state's assessed valuation, so homeowners would receive about one-third of the direct benefit from the tax rollback, about two-thirds would accrue to business.**

#### **Impact on commercial, industrial and agricultural properties**

Real income properties, as well as owner-occupied residences, would receive a sharp property tax rollback, the amount differing by current local tax rates.

The one percent limitation apparently does not apply to personal properties, such as inventories and equipment. These could be taxed at higher rates than currently. Also unclear is whether properties assessed by the state fall under this limitation since the measure only refers to property assessed by county assessors.

Income producing properties account for about two-thirds of the state's assessed valuation, so homeowners would receive about one-third of the direct benefit from the tax rollback, about two-thirds would accrue to business. The net effect upon business, after replacement taxes are levied and/or services are cut, is not predictable.

The ability for industries or individual firms to retain the property tax savings or to pass on an alternative tax would depend upon the market structure for each product, including the amount of out-of-state competition. In general, reducing the property tax would lower the current disincentive to invest in real properties in California. But, increasing bank and corporation tax rates would also discourage outside investment since the state's current nine percent rate is one of the highest in the nation.

The certainty of a substantial reassessment upon the sale of properties would create a disincentive to sell income properties. The assessment freeze might also set up an economic advantage in favor of firms whose assessments are frozen at low levels.

A firm attempting to site an industrial plant in a community might have a more difficult time obtaining approval since the tax revenues to be derived from the plant are to be distributed on a countywide basis, rather than only to the agencies in which the plant is to be located.

#### **Impact on homeowners**

Property taxes on a \$50,000 home, with a homeowner's exemption and a tax rate of \$12, would drop from \$1,290 to around \$539 (assuming the homeowner's exemption is repealed). After the immediate tax cut, property tax increases would not exceed two percent per year unless the home was sold. The reduction would be greater if the home had been reassessed after 1975-76.

The tax savings to homeowners would be diminished as a result of lower property tax deductions on federal and state income tax returns. User charges may be increased to fund services such as water, sewage and garbage, now often subsidized with property taxes. Significant cutbacks in police and fire protection could be reflected in higher insurance premiums. Any replacement taxes paid by the homeowner either directly through increased personal income and sales taxes or indirectly through partially passed on taxes levied on business would further reduce the homeowner's benefit.

According to the Assembly Revenue and Taxation Committee, "...if state taxes are increased to make up the loss of revenue to local government, homeowners will in all probability experience a net tax increase as they pay a smaller share of the total property tax (35%) than they do of other major

*Continued*





taxes such as sales tax, income tax, etc. It is probably not feasible to increase the state bank and corporation tax rate to offset the local property tax reductions this initiative provides to business and income producing property. Just to offset the business share would require a rate of 33% which is over triple the rate in any other state in the nation.

#### Impact on renters

Renters made up 45 percent of California households in 1969. Property taxes, on an average, make up 15-20 percent of rent payments, but the amount of the tax which is passed on differs with local rental markets.

The initiative contains no feature requiring landlords to pass on reduced property taxes to renters. Nevertheless, renters would be required to pay the same increased alternate sales and personal taxes which might be levied.

#### Other considerations

##### 1. Implications of Assessment Freeze

a. This measure may cause overassessment of properties which are declining in market value. The only way properties would be assessed downward is in the case of a sale or (unlikely) decline in the consumer price index.

b. Under the measure, properties which are "newly constructed" would be assessed at full cash value. This term is not defined. If "newly constructed" includes the remodeling of older homes or income properties, such rehabilitation and additions would be discouraged since it would trigger an upward reappraisal of the old building and land. On the other hand, if "newly constructed" excludes reconditioning and additions to properties, a loophole exists for those who greatly improve older homes or income properties rather than sell and construct new ones.

c. The assessment freeze will be of greatest benefit to homeowners who move less frequently and to owners of income properties which are sold less often. Homes now sell an average of every seven years, more often than

commercial properties, industrial plants or farms.

d. Identical homes in the same neighborhood might be burdened with disparate property tax loads if one sold more recently than the other, yet each home would receive identical governmental services. There would be an incentive for homeowners to stay in a home to avoid a sharp tax increase, even if the contemplated move were to a less expensive home.

e. In 1976, legislation and a constitutional amendment were enacted, exempting standing timber from property taxation. In lieu of the property tax, a yield tax is to be paid when timber is harvested. This initiative apparently would place the timber back on the property tax rolls at its 1975-76 value without removing the yield tax.

2. Of the \$7 to \$8 billion in property tax reductions, about \$3.2 billion would be offset by increased federal taxes resulting from the loss of the property tax deductions on individual and corporate tax returns.

3. The replacement of lost property tax revenues with new state tax revenues raises the basic questions:

a. How would the state funds be allocated? Should state taxpayers in general be asked to pay for local programs which differ greatly in cost? Cost of local programs vary for a number of reasons, including citizens' demands for quality of services, the amount of taxpayer oversight, current payments for past neglect of pension fund requirements, social makeup and geographic conditions.

b. Would the level of local concern for efficient operations and control of expenditures wane if the property taxes are drastically cut and the local officials become responsible for raising only a small portion of the taxes which they spend?

4. The initiative may violate the state constitution if the measure is deemed to contain more than one subject (property taxes and legislative vote requirement to raise other taxes).

**TABLE I**  
Composition of revenues of local agencies  
(in millions)

Source/Agency	1966-67		1975-76		10 year increase	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>Counties</b>						
Property taxes	\$ 960	38.3	\$ 2,334	35.2	\$ 1,374	143.1
Other local revenues	375	15.0	1,114	16.8	739	197.1
State & federal gov'ts.	1,172	46.7	3,181	48.0	2,009	171.4
<b>Total revenues</b>	<b>\$ 2,507</b>	<b>100.0</b>	<b>\$ 6,629</b>	<b>100.0</b>	<b>\$ 4,122</b>	<b>164.4</b>
<b>Cities</b>						
Property taxes	\$ 574	34.4	\$ 1,071	23.9	\$ 497	86.8
Other local revenues	798	47.8	2,074	46.1	1,276	159.9
State & federal gov'ts.	299	17.8	1,345	30.0	1,046	349.8
<b>Total revenues</b>	<b>\$ 1,671</b>	<b>100.0</b>	<b>\$ 4,490</b>	<b>100.0</b>	<b>\$ 2,819</b>	<b>168.7</b>
<b>School districts K-12</b>						
Property taxes	\$ 1,542	56.0	\$ 3,389	51.3	\$ 1,847	119.8
Other local revenues	36	1.3	112	1.7	76	211.1
State & federal gov'ts.	1,175	42.7	3,102	47.0	1,927	164.0
<b>Total revenues</b>	<b>\$ 2,753</b>	<b>100.0</b>	<b>\$ 6,603</b>	<b>100.0</b>	<b>\$ 3,850</b>	<b>139.8</b>
<b>Community college districts</b>						
Property taxes	\$ 158	61.2	\$ 491	43.2	\$ 333	210.8
Other local revenues	17	6.6	65	5.7	48	282.4
State & federal gov'ts.	83	32.2	582	51.1	499	601.2
<b>Total revenues</b>	<b>\$ 258</b>	<b>100.0</b>	<b>\$ 1,138</b>	<b>100.0</b>	<b>\$ 880</b>	<b>341.1</b>
<b>Special districts</b>						
Property taxes			\$ 332	45.2		
Other local revenues	N/A		160	21.8	N/A	
State & federal gov'ts.			242	33.0		
<b>Total revenues</b>			<b>\$ 734</b>	<b>100.0</b>		

Source: Annual Reports of State Controller concerning Financial Transactions of Cities, Counties, Schools Districts and Special Districts



OFFICE OF  
**CITY ATTORNEY**  
CITY HALL EAST  
LOS ANGELES, CALIFORNIA 90012



BURT PINES  
CITY ATTORNEY

REPORT NO. R78 - 115  
JAN 26 1978

REPORT RE

JARVIS/GANN INITIATIVE  
CONSTITUTIONAL AMENDMENT

The Honorable John Ferraro  
Councilman, Fourth District  
Room M-30, City Hall  
Los Angeles, California 90012

Dear Mr. Ferraro:

You have asked that this Office provide you with an analysis of the so-called "Jarvis/Gann Initiative Constitutional Amendment" which is commonly referred to as providing "property tax limitations." You also ask that we describe the immediate effect on the City of Los Angeles should the measure pass, and to discuss what alternatives would be available to the City to meet its financial obligations in the way of replacement revenues.

The initiative would add a new Article XIII A to the California Constitution. It is relatively short. It is, however, by no means an example of the meticulous and precise draftsmanship found elsewhere in most of our basic law. Some of its provisions are so obscure that an authoritative interpretation seems impossible short of a final judgment in one or more cases taken to the highest courts of this state.

ANALYSIS

In order to illustrate what we refer to, we will quote each section and subsection separately and then make such comments as occur to us. We will follow what we believe to be the interpretations required by a literal reading of the law. We reserve the right to argue for a more workable interpretation should that ever be in the City's interest.





- A. Section 1(a) "The maximum amount of any ad valorem tax on real property shall not exceed One percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties." (sic)

Note first that this Subsection (a) does not expressly authorize any level of government to impose the tax of not to exceed one percent (1%) of full cash value. This feature will become increasingly important as we study Sections 3 and 4.

The fact that the tax is to be collected by the counties does not mean that it is to be imposed by the counties.

The clause stating that the tax is to be "apportioned according to law to the districts within the counties" is especially puzzling. You will note that there is no authority to apportion any of the tax to cities; nor even to the county itself. There is a question as to whether any of it could be apportioned to such multi-county districts as the Metropolitan Water District because it is not a district "within" the county.

One of the most gaping inadequacies in the draftsmanship centers around the words "apportioned according to law." There is, of course, no such law presently in existence. Although similar provisions have been incorporated into property tax limitation initiatives that have been on the ballot in the 1960's and the 1970's, to our knowledge, no one has ever attempted to describe how such revenues could be apportioned among the cities and districts of a county such as Los Angeles County and to the county itself. You will recall that Los Angeles County has several thousand different code areas within each of which the same rate of property tax is levied by a city, the several districts, and the county itself. At this time the task of drawing a law which will reasonably apportion, according to thousands of code areas, whatever ad valorem property tax revenue is available among the cities, counties, and districts of the State of California appears staggering. In discussing Section 5 below we will return to this point when discussing the effect of the proposed July 1, 1978 effective date of the amendment.



- B. Section 1(b) "The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective." [Emphasis added.]

This provision is designed to protect the interests of the holders of outstanding general obligation bonds which have been approved by the people. It is so worded that, unless it could be financed within the permitted maximum rate of 1%, there could no longer be any new general obligation bond authorizations secured by ad valorem property taxes. You will note again, as was noted in connection with Section 1(a), that the proposed initiative does not expressly authorize any government to impose an ad valorem tax for the purpose of paying interest and redemption charges on bonds.

Although the need for it seldom arises, it is possible for a City in California under some circumstances to issue general obligation bonds without a vote of the people. The need to pay a large judgment would be an example (Govt. Code, Sec. 50173). The Jarvis/Gann Initiative would prohibit levying a property tax above the 1% limit to service such bonds because they were not approved by a vote of the people.

From our present study of the measure, we find no legal impediment to the issuance of revenue bonds. There could be a problem in marketing such bonds, however, if because of the adoption of this initiative the City would have problems in financing its normal operations. For example, the Convention Center, the Mall Parking Garage, and the Plaza Technical Center are being financed with revenue bonds to be paid from rentals agreed to by the City. If similar financing were attempted after the adoption of the Jarvis/Gann Amendment, the investment banking firms would surely examine the ability of the City to make payments on its leases against a background of confused and unstable municipal finances throughout the State of California.

Revenue bonds issued by the three proprietary departments and backed by revenues raised by those departments, and revenue bonds backed by such a charge as a sewer service charge, however, would not seem to be legally affected by this proposal. It would not be improbable, however, to find that all California municipal bonds, whether general obligation or revenue, would be unmarketable until events settled down.





It should be noted that the City of Los Angeles, and probably many others as well, have property tax authority for a number of special levies: The Fire and Police Pension System, the City Employees Retirement System, the Fire Department Facilities Trust Fund, and the special Police Communications Tax Override approved only recently. To the extent that these cannot be handled within the 1% limitation, none of these will be permitted if Sections 1(a) and (b) go into effect.

All members of the Council are well aware of the amount of property taxes needed by the Pension System and the City Employees Retirement System. All members of the Council are certainly aware of the nationwide concern over the fact that many public retirement systems are underfunded. Unless some substitute is found for the property tax as a means of funding our Retirement and Pension Systems, the two systems will have to draw on their reserves. The substitute revenues, if to be paid for by State or City taxes, will have to overcome the formidable obstacles raised in Sections 3 and 4, to be discussed below. It is not inconceivable that the soundness of the two systems, each of which is the principal support of many retired City personnel, will be endangered if substitute revenues are not promptly supplied.

The problems of employees with vested rights in the two systems are over and above the problems of those already retired. It may be that this aspect of the initiative could be attacked on the ground that it is an unconstitutional impairment of contract. We have done no research on this as of this time, but certainly the question will have to be explored.

- C. Section 2(b) "The full cash value means the County Assessors (sic) valuation of real property as shown on the 1975-76 tax bill under 'full cash value', or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred (sic) after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation."

A close reading of this subsection discloses several knotty problems. You will note that it refers to "the County Assessors valuation of real property." It seems that whoever was responsible for drafting this proposition was not aware of the



fact, or ignored it, that a large amount of public utility property in the state is not valued by County Assessors. It is valued by the State Board of Equalization. The City Controller's annual report discloses that for the fiscal year of 1976-1977 state-assessed public utility property in the City of Los Angeles alone had a valuation of approximately \$441,000,000. Whether this state-assessed property will escape ad valorem property taxes in their entirety, or whether they escape the one percent (1%) limitation provided in Section 1(a), cannot be known at this time.

It is obvious that tying the County Assessor's valuation to the assessed values shown on the 1975-1976 tax bill will result in a substantial loss of assessed valuation for the City of Los Angeles. For the current fiscal year (1977-1978) the total assessed valuation for the City of Los Angeles is \$12,020,337,481. The total assessed valuation for the City for the fiscal year 1975-1976 was \$9,486,088,917. Additionally, if read literally, this Section 2(a) would require that the Assessor's valuation as of 1975-1976 remain the same thereafter, (subject to minor changes to be mentioned below) even on a house that had in fact lost value or that had burned down.

The amendment does permit changes in the appraised value of real property when it is "purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The word "purchased" is fairly clear. The words "newly constructed," however are completely undefined. There is no way of knowing at this time whether the addition of one room to a house could result in the whole property being newly appraised for tax purposes. Conceivably even minor alterations or badly needed rehabilitation could produce such a result. On the other hand, it may mean that a new valuation will be placed on the property only when it is converted from unimproved land to improved land.

The words "change in ownership" includes many types of transactions. A change of ownership may be the result of inheritance, bankruptcy, foreclosure, dissolution of partnership, dissolution of tenancy in common, tax sale, eminent domain or a wide variety of other events. The consequences of the quoted language can well be illustrated by a hypothetical example of a tract of 20 or so homes of approximately equal age and value. All will start out with the base year valuation of 1975-1976. But over a few years it will be inevitable that certain properties change hands, some in one year, some in another, some after five years, some after ten. Each change of ownership in this one tract will result in a new appraisal for tax purposes. Those families who remained in the





same house all that time will be taxed at the 1975-1976 valuation. The house next door which was transferred 10 years later may be appraised at 100% or more above the 1975-1976 valuation, and there will be as many different appraisals in the one tract as there are years in which changes of ownership occurred. It is obvious that late arrivals in the tract will be bearing a much greater burden of the costs of government than the people who owned the land in 1978 and remained in the same place.

There also will be considerable confusion in determining the tax lien date for the properties which change ownership.

No doubt there will be attempts to evade the burdens of such an unequal system. A suggestion has been made that it might be useful to convey the land to a corporation as soon as possible and arrange changes of ownership through transfers of stock in the corporation rather than through recorded sales.\* It may also develop that many sales of property will be handled in a concealed manner in order to avoid reappraisal. There is a danger, of course, that the threat of increased taxation would place a pall on the residential real estate market. As years go by and the actual market value of property increases, some people could not afford to sell because when they re-bought the valuations would be so much higher than their customary manner of living could afford.

The concluding sentence of Section 2(a), providing that "property not already assessed to the 1975-1976 tax levels may be reassessed to reflect that valuation" is difficult to understand. In fact, we think it adds little if anything, except additional confusion, to the provision.

---

\*Indirectly, this suggests a concealed inequity which will discriminate in favor of business property and against residential property. Residential properties change ownership more often than business properties and thus will be reappraised more frequently. Business properties such as factories and office buildings may remain in one ownership for decades. One result of this is that residential property, as a whole, which now bears about 35% of the property tax burden, will bear an increasing share and commercial property, as a whole, will bear a gradually shrinking share.



- D. Section 2(b) "The Fair (sic) market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction."

This subsection appears to provide that there may be modest increases or decreases in assessed valuations due to inflation. The increase or decrease is geared to the "consumer price index," a figure compiled by the Bureau of Labor Statistics of the United States Department of Labor to reflect the costs of living of a typical family of moderate income. It is difficult to comprehend how changes in an index related to the cost of food, television sets, rent, clothes, automobiles, gasoline, electricity, etc., has anything to do with the change in value of real property. The fair market value of real property depends upon entirely different factors.

It should also be noted that the increases or decreases within the two percent (2%) range appear to apply across the board. If there is an increase or decrease in the consumer price index, the fair market value of all properties will go up or down accordingly. This has one very strange effect. A particular parcel of property, such as a building in an area of a city which suffers from declining values, may actually be losing in value every year and yet if the consumer's price index is going up the assessed valuation of that parcel will increase. In fact, even if the building burned down the subsection seems to require the assessed valuation for the property to go up if this provision of the proposed amendment is applied literally. There is no authority, as in the present Article XIII, Sec. 15, for the Legislature to provide for reassessment of taxable property physically damaged or destroyed after the lien date.

- E. Section 3 "From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed."





One aspect of this section which has received little comment may have a tremendous effect upon the whole proposition. This is because of the provisions of Article II, Section 8(d) of the California Constitution which provides:

"An initiative measure embracing more than one subject may not be submitted to the electors or have any effect."

The petition for the Jarvis/Gann Initiative had the words "PROPERTY TAX LIMITATION" in the "black letter" portion of its title. That certainly is one of the subjects with which it is concerned. Section 3, however, deals with other state taxes as well. It will require a two-thirds vote of each house of the Legislature in order to adopt a law which will increase revenues from state taxes.

You will recall that at the June Election of 1976 the voters approved "Proposition 5," a constitutional amendment which prescribed a majority vote, rather than a two-thirds vote, to impose state taxes on banks, corporations and insurance companies.\* The Jarvis/Gann Amendment, for practical purposes, reverses "Proposition 5."

---

\*"Proposition 5" was approved by a vote of 3,204,294 "Yes" to 2,188,419 "No." The Ballot Pamphlet "Argument in Favor" contained the following statement: "As long as the present law [i.e., 2/3 vote] exists, the vested interests will be able to stop true tax reform by concentrating their lobbying influence on a small minority of the Senate or Assembly. Only 4 out of the 40 Senators or 27 out of 80 members of the Assembly can completely defeat the will of the great majority of both houses."



The "one subject" rule for initiative constitutional amendments is designed to eliminate confusion among the voters.\* It is to prevent the voters being presented with a package where they are faced with a dilemma of voting "Yes" or "No" on a complex measure when there are some provisions of the proposition with which they agree and some with which they disagree. Those who voted "Yes" on "Proposition 5" in 1976 are faced with a dilemma: if they are in favor of property tax limitation, as provided in Jarvis/Gann, they cannot have it without, in effect, restoring to the Constitution what "Proposition 5" repealed. Voters may be strong believers in property tax reduction and just as strong believers that a heavier tax load should be shifted from property taxes to the state level. But Jarvis/Gann gives the voter no choice.\*\* In order to obtain property tax limitation the voter must also accept the proposition that it will be more difficult to shift the load to the state level. There is no necessary connection between property tax limitation and the super-majority requirement for increases in state taxes. They would appear to be two entirely separate subjects.

The prohibition against the state levying any new ad valorem tax on real property creates a potential problem for the state. At present, the State Constitution allows the state to levy property taxes up to the extent of 25% of its budget (Article XIII, Sec. 22). It has not levied any such tax within recent memory, but the provision remains in the Constitution, even after the work of the Constitution Revision Commission, because the authority of the state to impose a property tax provides some additional guarantee to those persons who buy state general obligation bonds. Removal of the state's authority to levy this tax

---

\*The "one subject" provision first entered the State Constitution as "Proposition 10" in the November Election of 1948. Attached hereto as an Appendix is a copy of the "Argument in Favor" contained in the Ballot Pamphlet. "Proposition 10" was approved by a vote of 1,973,761 "Yes" to 963,387 "No."

\*\*Jarvis/Gann requires a 2/3 vote to increase all state taxes, not just bank, corporation and insurance company taxes. Section 4(a) of "Proposition 1" submitted to the voters at the November Election of 1973 would have done the same thing. "Proposition 1" was defeated: "Yes," 1,934,453; "No," 2,277,631.





could conceivably affect the interest rate charged for future issues of state bonds.

You will recall in the discussion of Section 1(a) that we pointed out there is no authority in that section for any level of government to impose an ad valorem tax on real property. We now see in Section 3 that the state is expressly prohibited from imposing an ad valorem tax on real property.

- F. Section 4. "Cities, Counties (sic) and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district."

This section is of great interest to the City of Los Angeles as well as to counties and special districts. First, we notice that it is generally accepted terminology in California to distinguish between school districts and "special districts." All districts other than school districts are called "special districts." If the section is applied literally, therefore, there is no authority for school districts to impose any kind of a tax.

A second point of interest to this City is the statement that a city may impose "special taxes by a two-thirds vote of the qualified electors of such district." This, of course, assumes that a city is a district within the meaning of Section 4. Aside from that, however, note that the requirement is for a two-thirds vote of the qualified electors, not the qualified electors voting at a particular election.\* If applied literally, eccentric consequences follow. Suppose we had a City election in which there was

---

\*The term "elector" is defined in the State Elections Code as ". . . a United States citizen 18 years of age or older and a resident of an election precinct at least 29 days prior to an election." There is no definition of "qualified elector." An elector who is registered to vote is called a "voter" (Elections Code, Secs. 17, 18). The two-thirds vote requirement of Section 4 thus can be read as meaning two-thirds of all electors, whether registered or not.



a 65% turnout and there was the unlikely phenomenon of a unanimous vote in favor of a "special tax"\* on the ballot. It still could not go into effect because 65% turnout and approval is less than two-thirds of all the "qualified electors" of the City.

We notice here, too, that like the state in Section 3, cities, counties and special districts in Section 4 are prohibited from imposing ad valorem taxes on real property. This completes a very real dilemma which we first noted in discussing Section 1(a): Section 1 says there can be a maximum ad valorem tax of one percent (1%) of full cash value, but Sections 3 and 4 prohibit the state, a city, a county or a special district from imposing such a tax.

Perhaps the most controversial provision of Section 4 is contained in the following language: "Cities, counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district . . . ." The City, as you know, imposes quite a variety of taxes: sales tax, business tax, utility users tax, real property transfer tax\*\*, transient occupancy tax, et al. These, as we have assumed for the purposes of this analysis, would qualify as "special taxes" within the meaning of Section 4. The language does not, as is the case for the state in Section 3, provide that a city, county or special district may not "change" a presumably existing tax except by a two-thirds vote; it does not say a city, county or special district may not impose a "new" tax except by a two-thirds vote of the qualified electors; it says rather straightforwardly that a city, county or special district may not impose a special tax without a two-thirds vote of the qualified electors. Read literally, this section could mean that as of July 1, 1978 no "special tax" (whatever that means) imposed by the City of Los Angeles or any

---

\*The term "special tax" is not defined. So far as we are aware, it has no widely accepted meaning in the terminology of public finance. For the purpose of this discussion we are assuming that it means all taxes other than ad valorem taxes on property. As used in Section 4, however, it is also capable of meaning all taxes other than ad valorem taxes on real property.

\*\*The existing real property transfer tax, now imposed at the city and county level, would be prohibited by Section 4. Section 3 would prohibit it from being imposed at the State level.





other city in the State of California may be collected until the question has been submitted to the voters and approved by two-thirds of all of the qualified electors of the jurisdiction imposing the tax. The confusion resulting from such a situation is, of course, indescribable. If the point were ever presented to a court, this Office would urge as persuasively as possible that such a result should not follow because of the disastrous consequences of such an interpretation. But, after reading the section literally, a court would have to read words into it which the draftsmen left out if the drastic consequences we have described are to be avoided.

It is unnecessary in discussing Section 4 to repeat at length the discussion of "more than one subject" in the initiative. The limitation on a city or county's power to impose "special taxes" is clearly a third subject increasing the intensity of the dilemma faced by a voter whose prime concern is ad valorem property tax limitation.

In concluding the discussion of Section 4, we point out one more instance illustrating the lack of precision exercised by the drafter of the initiative. The words "may impose special taxes on such district" literally means (assuming that "district" includes cities and counties) that the city would impose a tax on the city, the county would impose a tax on the county and special districts would impose taxes on themselves. Had the language been "may impose special taxes within such district" the language would make more sense. As written, it seems entirely inappropriate to have such imprecision inserted into our Constitution.

- G. Section 5. "This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article."

So far as the City of Los Angeles is concerned, this proposal, if approved by the voters on June 6, 1978, would go into effect on July 1. The budget of this City, as you know, has been under construction for several months. It is based upon revenue estimates from existing sources. Final action by the Mayor and the Council on the budget will take place sometime in early June, perhaps before the June 6 Election. This is a requirement of the Charter. If this initiative goes into effect on July 1, and nothing has happened between June 6 and July 1 to make a difference, the City will



have a budget without meaning. As pointed out in the discussion of Section 1(a), there is no law in existence to provide for the distribution of any property tax collected.

- H. Section 6. "If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect."

This contains a severance clause, the effect of which cannot be predicted until it becomes more clear which sections of the initiative are likely to be attacked in court.

#### RELATED PROBLEMS

In our discussion of Section 1(b) we mentioned the possible effect of the tax limitation on the issuance of revenue bonds in a lease-leaseback type of program such as the Convention Center and the Plaza Technical Center. If the City's revenues are in disarray, potential bond buyers may well feel uneasy about the security of the leases to the City which guarantee the bonds. Also of interest to the City would be the effect of the amendment on the ability of the Community Redevelopment Agency to borrow money in the future or to repay money that it has already borrowed on the strength of expected tax increments. With the tax base basically frozen at the 1975-1976 level, it is quite unlikely that any new loans would be made to a community redevelopment agency. But that is not the whole of the problem. There are already outstanding loans in large amounts to community redevelopment agencies about the state which may be in danger of default if assessed values are cut back, there are virtually no tax increments, and if the rate is cut to the proposed maximum of one percent (1%) of full cash value. From conversations we have had, we believe this matter is under study by redevelopment agencies.

#### OTHER REVENUE SOURCES--PROBLEMS

As to that part of your inquiry which asks what alternatives would be available to the City in the way of replacement revenues to meet its financial obligations, our foregoing analysis indicates that the prospects are rather grim. Not only is there the complete dislocation effective July 1 if the initiative passes,





but there is the intensified problem that there are only 25 days between the election and the effective date of the new law. Furthermore, there are Charter restrictions and Constitutional limitations on the ability of the City and the State Legislature to act quickly if the measure does in fact go into effect. You will recall the restriction on the authority of the Legislature to increase taxes, and you will recall that the effective date of the amendment so far as the state is concerned is June 7, the day after the election. Thus, even with a Legislature willing to enact huge revenue-producing measures between June 7 and July 1, the Jarvis/Gann Amendment will already be a restriction on the Legislature and require a two-thirds vote of both houses.

So far as cities are concerned, thought may be given to emergency enactment of new revenue measures. But if the literal reading of Section 4 is the correct reading, even those emergency measures would have to be approved by two-thirds of the qualified electors.

#### CONCLUDING COMMENT

We will continue to give the matter study and accumulate as much information as we can as to suggestions made by other units of government faced with the same problems. One possibility that has not yet been widely discussed, so far as we know, is the institution of a proceeding in the Supreme Court or one of the appellate courts of the state to have the matter removed from the ballot on the ground that it contains more than one subject, and on any other grounds that might be developed through further legal study. Included in the grounds to be explored in such litigation is the question of whether the Jarvis/Gann Initiative should be removed from the ballot on the ground that it is an unlawful method of amending the Charter of the City of Los Angeles--specifically, the funding provisions for the Pension and Retirement Systems. No known precedent exists for this approach, but further research may prove it to be a valid point. The Constitution provides a method for amending a charter, and the present initiative does not conform to that method. A similar point was involved in a 1948 decision by our Supreme Court, McFadden vs. Jordan, 32 Cal.2d 330. A complex initiative had qualified for the ballot but was ordered removed because it amounted to a "revision" of the Constitution, rather than an amendment. The Supreme Court pointed out that there was a special provision for "revision" of the Constitution, and that it was a



The Honorable John Ferraro  
page 15

procedure distinct from that for initiative amendments. In order to develop and file such an action, however, this Office would need direction from the City Council. If that direction is to be given, it should be given as soon as possible.

In the event the measure remains on the ballot and is approved by the voters, however, it is still possible that it could also be challenged in the courts on the grounds discussed above as well as on other theories not yet fully developed. It is, of course, impossible to assure that any such litigation would necessarily be successful.

Very truly yours,

BURT PINES, City Attorney

*James A. Doherty*  
BY  
JAMES A. DOHERTY  
Assistant City Attorney

JAD:lp  
485-5457

Encls.

cc: Honorable Tom Bradley, Mayor  
Each Member of City Council  
Dr. C. Erwin Piper, City  
Administrative Officer  
Ken Spiker, Chief Legislative  
Analyst





INITIATIVES. Assembly Constitutional Amendment No. 2.  
Adds Section 1c to Article IV of the Constitution.  
Provides that every constitutional amendment or  
statute proposed by the initiative shall relate to  
but one subject. Prohibits submission to the  
electors of initiative constitutional amendments  
or statutes embracing more than one subject and  
declares that any such initiative hereafter sub-  
mitted or approved shall not go into effect.

YES

NO

(For full text of measure, see page 6, Part II)

Argument in Favor of Assembly Constitu-  
tional Amendment No. 2

Assembly Constitutional Amendment No. 2 requires that  
any proposed amendment to the State Constitution submitted by  
initiative for approval by the voters be limited to one subject.  
The purposes to be achieved are:

(1) Simplification and clarification of issues pre-  
sented to the voters, and

(2) A more intelligent amendment of the constitution  
by permitting the adopted sections to be placed in appropriate  
subdivisions of the constitution.

First: Today, any proposition may be submitted to the  
voters by initiative and it may contain any number of subjects.  
By this device a proposition may contain 20 good features, but  
have one bad one secreted among the 20 good ones. The busy voter  
does not have the time to devote to the study of long, wordy,  
propositions and must rely upon such sketchy information as may  
be received through the press, radio or picked up in general  
conversation. If improper emphasis is placed upon one feature  
and the remaining features ignored, or if there is a failure to  
study the entire proposed amendment, the voter may be misled as  
to the over-all effect of the proposed amendment.

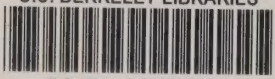
Assembly Constitutional Amendment No. 2 entirely  
eliminates the possibility of such confusion inasmuch as it will  
limit each proposed amendment to one subject and one subject  
only.

Protection is also given to those individuals who sign  
the sponsoring petition. People requested to sign the sponsoring





U.C. BERKELEY LIBRARIES



C124899664





PASADENA, CALIFORNIA